

*In the opinion of Brown & Wood LLP, Los Angeles, California, Special Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants set forth in the documents pertaining to the Certificates and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), as described herein, the portion of each Lease Payment due under the Facilities Lease designated as and comprising interest with respect to the Certificates is not includable in the gross income of the holders of the Certificates for federal income tax purposes. In the further opinion of Special Counsel, the portion of each Lease Payment due under the Facilities Lease designated as and comprising interest with respect to the Certificates is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Such portion of each Lease Payment, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax and environmental tax liabilities. In the further opinion of Special Counsel, the portion of each Lease Payment due under the Facilities Lease designated and comprising interest with respect to the Certificates is exempt from personal income taxes imposed by the State of California. See "LEGAL MATTERS-Tax Exemption" herein.*

→ \$11,720,000

## **CITY OF SAN DIEGO, CALIFORNIA**

### **Refunding Certificates of Participation**

**(Balboa Park and Mission Bay Park Capital Improvements Program, Series 1991)**

**Series 1996B** ←



**Evidencing Proportionate Interests of the Owners Thereof in Lease Payments to Be Made by the City  
Pursuant to a Facilities Lease with the San Diego Facilities and Equipment Leasing Corporation**

**Dated: August 1, 1996**

**Due: November 1, as shown below**

**THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY. IT IS NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION.**

The City of San Diego, California Refunding Certificates of Participation (Balboa Park and Mission Bay Park Capital Improvements Program, Series 1991) Series 1996B (the "Certificates") are being executed and delivered to advance refund certain outstanding obligations of the City of San Diego, California (the "City"), which funded certain improvements in Balboa Park and Mission Bay Park, located in the City.

Interest evidenced and represented by the Certificates is payable semiannually on May 1 and November 1 of each year, commencing November 1, 1996. The Certificates will be available in book-entry form only and will be initially registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates as described in "APPENDIX B: BOOK-ENTRY-ONLY SYSTEM." The Certificates are subject to optional, extraordinary and mandatory prepayment as described herein. See "THE CERTIFICATES-Prepayment."

The Certificates evidence the proportionate interests of the Owners thereof in Lease Payments to be made by the City to the San Diego Facilities and Equipment Leasing Corporation (the "Corporation") pursuant to a Facilities Lease dated as of August 1, 1996 between the City and the Corporation (the "Facilities Lease"). The Corporation has assigned its rights to receive Lease Payments from the City, and to enforce payment of such Lease Payments upon default, to the Trustee, as defined herein, for the benefit of the Owners of the Certificates. The City has covenanted in the Facilities Lease that it will take such action as may be necessary to include the Lease Payments due under the Facilities Lease in its annual budgets, and to make the necessary annual appropriation therefor. Neither the Certificates nor the obligation of the City to make Lease Payments or payments of Additional Rent under the Facilities Lease constitute an obligation of the City or the Corporation for which the City is obligated to pledge or levy any form of taxation or for which the City has levied or pledged any form of taxation. Neither the Certificates nor the obligation to make such payments constitute an indebtedness of the City, the County of San Diego, the State of California or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction. See "SECURITY FOR THE CERTIFICATES."

### **Maturity Schedule on Inside Front Cover**

*The following firm, serving as financial advisor to the City, has structured this issue:*

**Kitahata & Company**

*Brown & Wood LLP, Los Angeles, California, Special Counsel, will render an opinion with respect to the validity and enforceability of the Facilities Lease and the Trust Agreement. Certain legal matters will be passed upon for the City by Orrick, Herrington & Sutcliffe, Los Angeles, California, Disclosure Counsel, and for the City and the Corporation by the City Attorney. It is anticipated that the Certificates in book-entry form will be available for delivery through DTC in New York, New York, on or about August 15, 1996.*

**Dated July 31, 1996**

## MATURITY SCHEDULE

**\$11,720,000**

### Refunding Certificates of Participation

**(Balboa Park and Mission Bay Park Capital Improvements Program, Series 1991)**

**Series 1996B**

<u>Maturity Date</u> <u>(November 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price/</u> <u>Yield</u>	<u>Maturity Date</u> <u>(November 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Price/</u> <u>Yield</u>
1997	\$235,000	4.00%	3.90%	2005	\$340,000	5.10%	100%
1998	245,000	4.00	100	2006	355,000	5.20	100
1999	255,000	4.15	100	2007	380,000	5.30	100
2000	265,000	4.30	4.35	2008	395,000	5.40	100
2001	280,000	4.50	4.55	2009	425,000	5.50	100
2002	290,000	4.75	100	2010	445,000	5.60	100
2003	305,000	5.00	100	2011	470,000	5.70	100
2004	325,000	5.00	100				

\$1,040,000 5.75% Term Certificates Due November 1, 2013 – Price: 100%

\$1,810,000 5.80% Term Certificates Due November 1, 2016 – Price: 100%

\$680,000 6.00% Serial Certificates Due November 1, 2017 – Price: 100.75%\*

\$720,000 6.00% Serial Certificates Due November 1, 2018 – Price: 100.50%\*

\$770,000 6.00% Serial Certificates Due November 1, 2019 – Price: 100.25%\*

\$820,000 6.00% Serial Certificates Due November 1, 2020 – Price: 100%

\$870,000 6.00% Serial Certificates Due November 1, 2021 – Price: 100%

(plus accrued interest)

\* Priced to Par Call on November 1, 2006

No dealer, broker, salesperson or other individual has been authorized by the City to give any information or to make any representations, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor will there be any sale of the Certificates by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Certificates. Statements contained in this Official Statement that involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The summaries and references to resolutions and to statutes and documents in this Official Statement do not purport to be comprehensive or definitive and are qualified in their entireties by reference to each such statute and document.

The information set forth herein has been obtained from sources that are believed to be reliable but is not guaranteed as to accuracy or completeness. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the City or any other parties described herein since the date hereof. This Official Statement is submitted in connection with the sale of Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES DESCRIBED HEREIN AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE CERTIFICATES DESCRIBED HEREIN TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED IN THIS OFFICIAL STATEMENT AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

# City of San Diego

## City Council

Susan Golding  
*Mayor*

Harry Mathis  
*Councilmember-District 1*

Byron Wear  
*Councilmember-District 2*

Christine Kehoe  
*Councilmember-District 3*

George Stevens  
*Councilmember-District 4*

Barbara Warden  
*Councilmember-District 5*

Valerie Stallings  
*Deputy Mayor-District 6*

Judy McCarty  
*Councilmember-District 7*

Juan Vargas  
*Councilmember-District 8*

## City Officials

Jack McGrory  
*City Manager*

Ed Ryan  
*City Auditor and Comptroller*

Charles Abdelnour  
*City Clerk*

John W. Witt  
*City Attorney*

Patricia T. Frazier  
*Financial and Technical Services Manager*

Conny M. Jamison  
*City Treasurer*

## Corporation Board

John W. Witt  
*Director*

Ed Ryan  
*Director*

Jack McGrory  
*Director*

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## Special Counsel

Brown & Wood LLP  
Los Angeles, California

## Disclosure Counsel

Orrick, Herrington & Sutcliffe  
Los Angeles, California

## Financial Advisor

Kitahata & Company  
San Francisco, California

## Trustee

BNY Western Trust Company  
Los Angeles, California

## Escrow Agent

First Trust of California, National Association  
Los Angeles, California

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# **OFFICIAL STATEMENT**

**\$11,720,000**

## **CITY OF SAN DIEGO, CALIFORNIA**

### **Refunding Certificates of Participation**

**(Balboa Park and Mission Bay Park Capital Improvements Program, Series 1991)**

**Series 1996B**

**Evidencing Proportionate Interests of the Owners Thereof in Lease Payments to Be Made by the City  
Pursuant to a Facilities Lease with the San Diego Facilities and Equipment Leasing Corporation**

## **INTRODUCTION**

This Official Statement, which includes the cover page and appendices hereto, is provided to furnish certain information in connection with the City of San Diego, California Refunding Certificates of Participation (Balboa Park and Mission Bay Park Capital Improvements Program, Series 1991) Series 1996B in the aggregate principal amount of \$11,720,000 (the "Certificates"), the proceeds of which will be used to advance refund the Certificates of Participation (Balboa Park and Mission Bay Park Capital Improvements Program) Series 1991 (the "1991 Certificates"), which funded certain improvements in Balboa Park and Mission Bay Park, located in the City of San Diego, California (the "City"). See "PLAN OF REFUNDING" for further information.

The Certificates evidence the proportionate interests of the Owners thereof in Lease Payments to be made by the City to the San Diego Facilities and Equipment Leasing Corporation (the "Corporation") pursuant to a Facilities Lease dated as of August 1, 1996 between the City and the Corporation (the "Facilities Lease"). See "LEASE PAYMENTS" for schedules of the specified lease payments due under the Facilities Lease for the Certificates.

Pursuant to an Assignment Agreement dated as of August 1, 1996 for the Certificates, the Corporation has assigned its rights to receive Lease Payments from the City, and to enforce payment of such Lease Payments upon default, to the Trustee, as defined herein, for the benefit of the Owners of the Certificates.

The Certificates will be executed and delivered pursuant to a Trust Agreement dated as of August 1, 1996 among the Corporation, BNY Western Trust Company (the "Trustee"), and the City (the "Trust Agreement"). The Trust Agreement provides that the Trustee will apply Lease Payments, Additional Rent, insurance proceeds, proceeds of eminent domain proceedings, and other payments of any kind received by it for the benefit of the Owners to the payment of the Certificates and will perform certain other functions. See "APPENDIX C: SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

The City has covenanted in the Facilities Lease that it will take such action as may be necessary to include the Lease Payments due under the Facilities Lease in its annual budgets, and to make the necessary annual appropriation therefor, subject to abatement in the event of damage, destruction, condemnation or title defects with respect to the Facilities as more particularly described herein. The amount of such abatement shall be such that the resulting Lease Payments represent fair consideration for the use and possession of portions of the Facilities not destroyed, damaged, taken or subject to title defect. See "RISK FACTORS." Such covenants of the City are deemed by the City, and shall be construed, to be duties imposed by law. The City has also covenanted under the Facilities Lease subject to certain limitations to maintain certain levels of liability, property damage, casualty and rental interruption insurance in connection with the Facilities, some of which may be provided by self-insurance of the City. See "APPENDIX C: SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

Neither the Certificates nor the obligation of the City to make Lease Payments under the Facilities Lease constitute an obligation of the City for which the City is obligated to pledge or levy any form of

taxation or for which the City has levied or pledged any form of taxation. The Corporation has no taxing power. Neither the Certificates nor the obligation to make such payments constitute a debt of the City, the County of San Diego, the State of California or any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction. See "SECURITY FOR THE CERTIFICATES."

Brief descriptions of the Certificates, Security for the Certificates, Risk Factors, the Facilities, the Corporation and the City follow. Such descriptions do not purport to be comprehensive or definitive. All references made to various documents herein are qualified in their entirety by reference to the forms thereof, copies of which may be obtained from the Trustee. All capitalized terms used in this Official Statement (unless otherwise defined herein) which are defined in the Facilities Lease or the Trust Agreement shall have the meanings set forth therein, some of which are summarized in "APPENDIX C: SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

This Official Statement includes certain changes made to the Trust Agreement and the Facilities Lease which in turn reflect changes made in connection with the ratings process. These changes include changes to the definition of Permitted Investments, the valuation of Reserve Account investments, investments of the Lease Payment Account and the Reserve Account. See "APPENDIX C: SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Certificates to potential investors is made only by means of the entire Official Statement.

## **THE CERTIFICATES**

### **General Provisions**

The Certificates will be dated August 1, 1996 and will be payable as to interest from that date at the rates per annum set forth on the inside cover page hereof, semiannually on each May 1 and November 1 commencing November 1, 1996 (each individually, an "Interest Component Payment Date"), and will mature on November 1 in each of the designated years (each individually, a "Principal Component Payment Date") and in the principal amounts shown on the inside cover page hereof.

The Certificates shall be prepared in the form of fully registered Certificates in denominations of five thousand dollars (\$5,000) or any integral multiple thereof. The interest evidenced and represented by the Certificates is payable by check or draft mailed to the Owners at the addresses appearing on the books of the Trustee on the fifteenth day of the calendar month preceding each Interest Component Payment Date (a "Record Date"), whether or not such day is a Business Day. In the case of an Owner evidencing \$1,000,000 or more in aggregate principal amount, upon written request of such owner to the Trustee at least twenty days prior to any Interest Component Payment Date, such interest shall be paid in immediately available funds by wire transfer. The principal and any premium payable upon maturity or prepayment with respect to the Certificates is due upon surrender of the Certificates at the principal corporate trust office of the Trustee.

### **Book-Entry System**

The Certificates will be executed and delivered only in registered form. The Certificates will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). The Certificates will be in book-entry form only, and the purchasers will not receive physical certificates representing their interests in the Certificates. So long as DTC or its nominee remains the registered owner of the Certificates, disbursement of payments on the Certificates to DTC participants is the responsibility of DTC, and disbursement of such payments to beneficial owners of

the Certificates is the responsibility of DTC participants and indirect participants. For a more complete description of the book-entry system, see "APPENDIX B: BOOK-ENTRY-ONLY SYSTEM."

## Prepayment

**Optional Prepayment.** Certificates maturing on or prior to November 1, 2004, are not subject to prepayment prior to their respective stated maturity dates. Certificates maturing on or after November 1, 2005, may be called for prepayment prior to their respective stated maturity dates, at the option of the City, from any source of available funds, on or after November 1, 2004, in whole or in part on any date, in such maturity or maturities as may be selected by the City (and by lot on any date within a maturity if less than all of the Certificates of such maturity are to be prepaid), at the following prepayment prices (expressed as a percentage of the principal amount of the Certificates called for prepayment), together with interest accrued thereon to the date of prepayment:

<u>Prepayment Dates</u>	<u>Price</u>
November 1, 2004 through October 31, 2005.....	102%
November 1, 2005 through October 31, 2006.....	101
November 1, 2006 and thereafter.....	100

**Extraordinary Prepayment.** The Certificates are subject to prepayment, in whole or in part on any business day, from prepaid Lease Payments made by the City from Insurance Proceeds received by the City pursuant to the title insurance policy required to be maintained under the Facilities Lease or due to a casualty loss or governmental taking by eminent domain proceedings of any item or portion of the Facilities at a prepayment price equal to the principal amount represented thereby to the date fixed for prepayment, without premium. Lease Payments would be prepaid in the event the City elects not to apply such amounts to repair or replace such item or portion of the Facilities in accordance with the provisions of the Facilities Lease and the Trust Agreement. For a discussion of the insurance required to be maintained by the City, see "APPENDIX C: SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

**Mandatory Sinking Fund Prepayment.** The Certificates maturing on November 1, 2013 are subject to mandatory sinking fund prepayment in part on November 1, 2012 in accordance with the mandatory sinking fund prepayment schedule shown below, at a prepayment price equal to the principal amount thereof, without premium.

<u>Sinking Fund</u> <u>Prepayment Date (November 1)</u>	<u>Principal Amount</u> <u>To Be Prepaid</u>
2012	\$505,000
2013 (final maturity)	535,000

The Certificates maturing on November 1, 2016 are subject to mandatory sinking fund prepayment in part on November 1, 2014 and on each November 1 thereafter to maturity in accordance with the mandatory sinking fund prepayment schedule shown below, at a prepayment price equal to the principal amount thereof, without premium.

<u>Sinking Fund</u> <u>Prepayment Date (November 1)</u>	<u>Principal Amount</u> <u>To Be Prepaid</u>
2014	\$570,000
2015	600,000
2016 (final maturity)	640,000

Prior to each prepayment date, the Trustee will make provisions for the payment of the Principal Components to be prepaid on such date by setting aside from moneys available therefor and holding in trust within the respective Lease Payment Accounts established pursuant to the Trust Agreement an amount sufficient to pay the Principal Component of the Certificates to be prepaid (together with any

premium required to be paid as described above) plus the Interest Component accrued to the prepayment date. See "LEASE PAYMENTS."

*Notice of Prepayment.* The Trust Agreement provides that notice of prepayment will be given by the Trustee by first class mail, postage prepaid, at least 30 days but not more than 60 days before the date fixed for prepayment to the Owners of the Certificates designated for prepayment, in whole or in part, at their addresses appearing on the Certificate registration books of the Trustee as of the close of business on the date before such notice of prepayment is given. As long as a book-entry method is used for the Certificates, such notice shall be sent by the Trustee to the securities depository for the Certificates, initially DTC or its nominee, in such manner as shall be specified in the representation letter described in the Trust Agreement or as otherwise instructed by the securities depository. Beneficial owners of interests in the Certificates are to receive notification of such prepayment as described in "APPENDIX B: BOOK-ENTRY-ONLY SYSTEM."

Additionally, the Trust Agreement provides that notice of prepayment is to be given to certain securities depositories and information services. Neither the failure of any Owner to receive any such notice or any defect therein shall affect the sufficiency of the proceedings for the prepayment of Certificates. If notice of prepayment is given as provided in the Trust Agreement and sufficient moneys are held by the Trustee for the prepayment of all the Certificates, or portions thereof to be paid, interest with respect to such Certificates, or portions thereof to be prepaid, shall cease to accrue from and after the prepayment date.

#### **Continuing Disclosure**

The City has covenanted for the benefit of holders and beneficial owners of the Certificates to provide certain financial information and operating data relating to the City by not later than 285 days following the end of the City's fiscal year (which date currently would be April 11, based upon the City's June 30 fiscal year-end), commencing with the report for the 1996 fiscal year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report will be filed by the City with each Nationally Recognized Municipal Securities Information Repository, and with the appropriate State information depository, if any. The notices of material events will be filed by the City with the Municipal Securities Rulemaking Board (and with the appropriate State information depository, if any). The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in "APPENDIX E: FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5). The City has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide Annual Reports or notices of material events.

### **SECURITY FOR THE CERTIFICATES**

The Certificates evidence proportionate interests of the Owners thereof in the Lease Payments to be made by the City pursuant to the Facilities Lease.

#### **Covenant to Budget Lease Payments**

Lease Payments are to be made by the City from annual appropriations which are payable from any source of legally available funds. The City has agreed in the Facilities Lease to make such annual appropriations. Neither the full faith and credit nor the taxing power of the City, the County of San Diego or the State of California is pledged to the payment of the Certificates or the Lease Payments.

#### **Reserve Account**

Pursuant to the Trust Agreement, there is to be on deposit in the Reserve Account for the Certificates an amount for each series equal to the least of (i) an amount equal to the maximum amount of Lease



Payments due on the fifth Business Day preceding any November 1 and the next succeeding May 1 (ii) an amount equal to 10% of the proceeds of the Certificates then Outstanding, or (iii) 125% of the average annual Lease Payments due with respect to the Certificates (the "Reserve Requirement"). Such money is to be held in trust as a reserve for payment when due of principal and interest represented by the Certificates, in the event amounts in the Lease Payment Account are insufficient thereof.

#### **Maintenance of the Facilities by the City**

The City is responsible under the Facilities Lease to maintain, preserve and keep the Facilities in good repair and condition during the term of the Facilities Lease. The City is also responsible, under the Facilities Lease, to pay all taxes and governmental charges assessed or levied against the Facilities.

#### **Insurance**

The City has covenanted in the Facilities Lease to maintain or cause to be maintained certain levels of the following policies of insurance throughout the term of the Facilities Lease (which may constitute blanket policies insuring City-owned property generally, including the Facilities but not specifically identifying the Facilities):

- (1) insurance against loss or damage to the Facilities resulting from fire, lightning, vandalism, malicious mischief and such perils ordinarily defined as "extended coverage", not including earthquake, and such other perils as the Corporation and the City may agree should be insured against if such insurance is available from reputable insurers, maintained in an amount not less than the full insurable value of the Facilities (subject to a "deductible clause" in an amount not exceeding \$100,000 for any one loss);
- (2) use and occupancy or business interruption or rental income insurance against the perils of fire, lightning, vandalism, malicious mischief, and such other perils ordinarily covered under an "extended coverage" policy, not including earthquake, in an amount sufficient to pay the total Lease Payments attributable to such portion of the Facilities for the period necessary to rebuild it, but not less than twelve months;
- (3) public liability insurance against claims for bodily injury or death, or damage to property occurring upon, in or about the Facilities;
- (4) worker's compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure employers against liability for compensation; and
- (5) title insurance under one or more policies in the form of California Land Title Association Policy of Title Insurance.

In lieu of obtaining the insurance required in subsections (1), (3) and (4) above, the City may demonstrate to the satisfaction of the Corporation that adequate self-insurance is provided with respect to the same risk of loss of the Facilities as are covered by the insurance above specified sufficient in each case to replace the Facilities or, if more, to pay all of the Outstanding Certificates allocable to the Facilities and to protect the Corporation from liability. If the insurance required in subsections (1), (3) and (4) above is not available, the City will self-insure with respect thereto. If the City maintains a program of self-insurance for similar properties, the City may, with the consent of the Corporation, elect to insure any or all of the Facilities in its self-insurance program and provide an adequate insurance fund to pay losses. In the event the City elects to provide self-insurance, the Risk Manager of the City shall on the date on which the City elects to self-insure, and annually, on or about July 1 thereafter, cause to be delivered to the Corporation and the Trustee a certificate certifying to the existence of self-insurance meeting the requirements described above.

The Facilities consist of a municipal golf course owned and operated by the City. See "THE FACILITIES." The insurance policies described in paragraphs (1) and (2) above cover loss or damage

only to that portion of the Facilities consisting of buildings and other structures. Such policies do not cover the grounds and landscaping of the golf course. Therefore, the insurance proceeds available in the event of loss or damage to the Facilities may be only a fraction of the total amount of such loss or damage. Although the City presently believes, given its current financial condition, that a shortfall in insurance proceeds would not be expected to prevent the timely repair or replacement of the Facilities after damage from natural hazards, the City would have no legal obligation under the Facilities Lease or otherwise to effect such repair or replacement with monies other than insurance proceeds.

## LEASE PAYMENTS

Lease payments with respect to the Certificates are required to be made by the City to the Trustee under the Facilities Lease five Business Days prior to the dates set forth in the schedule shown below.

**Table 1**  
**LEASE PAYMENT SCHEDULE**  
**City of San Diego, California**  
**Refunding Certificates of Participation**  
**(Balboa Park and Mission Bay Park Capital Improvements Program, Series 1991)**  
**Series 1996B**

Maturity (11/1)	Principal [1]	Interest	Total	Fiscal Year Total [2]
1996 [1]		\$161,946.88	\$161,946.88	\$485,840.63
1997	\$235,000.00	647,787.50	882,787.50	878,087.50
1998	245,000.00	638,387.50	883,387.50	878,487.50
1999	255,000.00	628,587.50	883,587.50	878,296.25
2000	265,000.00	618,005.00	883,005.00	877,307.50
2001	280,000.00	606,610.00	886,610.00	880,310.00
2002	290,000.00	594,010.00	884,010.00	877,122.50
2003	305,000.00	580,235.00	885,235.00	877,610.00
2004	325,000.00	564,985.00	889,985.00	881,860.00
2005	340,000.00	548,735.00	888,735.00	880,065.00
2006	355,000.00	531,395.00	886,395.00	877,165.00
2007	380,000.00	512,935.00	892,935.00	882,865.00
2008	395,000.00	492,795.00	887,795.00	877,130.00
2009	425,000.00	471,465.00	896,465.00	884,777.50
2010	445,000.00	448,090.00	893,090.00	880,630.00
2011	470,000.00	423,170.00	893,170.00	879,775.00
2012 [3]	505,000.00	396,380.00	901,380.00	886,861.25
2013 [3]	535,000.00	367,342.50	902,342.50	886,961.25
2014 [4]	570,000.00	336,580.00	906,580.00	890,050.00
2015 [4]	600,000.00	303,520.00	903,520.00	886,120.00
2016 [4]	640,000.00	268,720.00	908,720.00	890,160.00
2017	680,000.00	231,600.00	911,600.00	891,200.00
2018	720,000.00	190,800.00	910,800.00	889,200.00
2019	770,000.00	147,600.00	917,600.00	894,500.00
2020	820,000.00	101,400.00	921,400.00	896,800.00
2021	870,000.00	52,200.00	922,200.00	896,100.00
Totals:	<u>\$11,720,000.00</u>	<u>\$10,865,281.88</u>	<u>\$22,585,281.88</u>	<u>\$22,585,281.88</u>

[1] First period total includes accrued interest from August 1, 1996 to delivery date.

[2] Fiscal year totals are as of June 30 of the following year. For example, the first line shows a bond year total as of November 1, 1996 and then a fiscal year total as of June 30, 1997.

[3] Represents sinking fund payment and final maturity of term Certificates due November 1, 2013.

[4] Represents sinking fund payments and final maturity of term Certificates due November 1, 2016.

## PLAN OF REFUNDING

### Purpose of the Issue

The proceeds of the Certificates will be used to advance refund and legally defease the 1991 Certificates as further described herein, the proceeds of which were used to finance the acquisition, construction and installation of certain projects under Phase IA of the Balboa Park and Mission Bay Park Capital Improvements Program, a long-term and multi-phase master plan to preserve and enhance these two City and regional recreational resources. The 1991 Certificates are currently outstanding in the principal amount of \$11,080,000.

### Escrow Fund

To accomplish the advance refunding of the 1991 Certificates, the net proceeds of the Certificates will be deposited in escrow with First Trust of California, National Association (the "Escrow Agent"). The escrow deposit will be applied to the purchase of Government Obligations the principal of which, together with the interest earned thereon, will be sufficient to pay the principal and interest with respect to the 1991 Certificates as it becomes due through July 15, 2001, the Prepayment Date, and to pay principal of and premium, if any, on the 1991 Certificates on such Prepayment Date. Causey Demgen & Moore Inc. will verify the arithmetical computations used to determine the sufficiency of the escrow deposit. Such Government Obligations will be deposited in an irrevocable escrow fund (the "Escrow Fund") established pursuant to an Escrow Agreement dated as of the delivery date, by and among the City, the Corporation and the Escrow Agent (the "Escrow Agreement") for the benefit of the owners of the 1991 Certificates. The Escrow Fund and the amounts on deposit therein will neither serve as security for nor be available for the payment of principal or interest with respect to the Certificates.

### Estimated Sources and Uses of Funds

The proceeds to be received from the sale of the Certificates, excluding accrued interest, are expected to be applied as follows:

**Table 2**  
**ESTIMATED SOURCES AND USES OF FUNDS**  
**City of San Diego, California**  
**Refunding Certificates of Participation**  
**(Balboa Park and Mission Bay Park Capital Improvements Program, Series 1991)**  
**Series 1996B**

#### Sources

Par Amount of the Certificates	\$11,720,000.00
Original issue premium	9,705.35
1991 Certificates Lease Pmt. Acct.	35.35
1991 Certificates Reserve Account	1,007,691.98
Total Sources of Funds	<u>\$12,737,432.68</u>

#### Uses

Deposit to the Escrow Fund	11,617,133.66
Deposit to the Reserve Account	896,800.00
Underwriter's discount [1]	98,802.02
Costs of issuance	124,697.00
Total Uses of Funds	<u>\$12,737,432.68</u>

[1] Includes original issue premium. Net underwriter's discount at closing will be \$89,096.67.

## **RISK FACTORS**

The following factors, along with all other information in this Official Statement, should be considered by potential investors in evaluating the investment risks inherent in purchasing the Certificates.

### **Certificates Not a General Obligation**

The obligation of the City to make Lease Payments under the Facilities Lease does not constitute an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation. The Corporation has no taxing power. The obligation of the City under the Facilities Lease to make Lease Payments does not constitute a debt or indebtedness of the City, the County of San Diego, the State of California or any political subdivision thereof, within the meaning of any constitutional or statutory debt limitation or restriction, nor does such obligation constitute a pledge of the full faith and credit of the City. The obligation of the City to make Lease Payments under the Facilities Lease is in consideration of the right of the City to the continued use and possession of the Facilities and, in the event of failure of such use and possession, the obligation of the City may be abated in whole or in part as described herein.

Although the Facilities Lease does not create a pledge, lien or encumbrance upon the funds of the City, the City is obligated under the Facilities Lease to pay the Lease Payments from any source of legally available funds (subject to certain exceptions), and the City has covenanted in the Facilities Lease that, for so long as the Facilities are available for its use, it will make the necessary annual appropriations within its budget for its Lease Payments.

The City is currently liable on other obligations payable from general revenues. The City has the capability to enter into other obligations which may constitute additional charges against its general revenues. To the extent that additional obligations are incurred by the City, the funds available to make Lease Payments may be decreased.

In the event the City's revenue sources are less than its total obligations, the City could choose to fund other more essential municipal services before making Lease Payments. The same result could occur if, because of State Constitutional limits on expenditures, the City is not permitted to appropriate and spend all of its available revenues. The City's appropriations currently do not exceed the limitation on appropriations under Article XIII B of the California Constitution. See "APPENDIX A: THE CITY OF SAN DIEGO- LIMITATIONS ON TAXES AND APPROPRIATIONS."

### **Abatement**

During such time as there is substantial interference with the City's use and possession of all or a portion of the Facilities, the City's legal obligation to make Lease Payments shall be abated. Such abatement shall continue for the period commencing with such damage, destruction, interference or taking and ending with the substantial completion of the replacement or work of repair or the removal of the title defect causing such interference with use. The City waives the benefits of Civil Code Sections 1932(2) and 1933(4) and any and all other rights to terminate the Facilities Lease by virtue of any such interference and the Facilities Lease shall continue in full force and effect. The abatement of Lease Payments described above is not an event of default under the Facilities Lease or the Trust Agreement.

Notwithstanding a substantial interference with the use and possession of all or a portion of the Facilities, the City shall remain obligated to make Lease Payments (i) in an amount not to exceed the fair rental value during each Fiscal Year for the portion of the Facilities not damaged, destroyed, interfered with or taken, as determined by an independent real estate appraiser selected by the City (who is not an employee of the City); or (ii) to the extent that moneys derived from any person as a result of any delay in the reconstruction, replacement or repair of the Facilities, or any portion thereof, are available to pay the amount which would otherwise be abated; or (iii) to the extent that moneys are available in the Reserve Account to pay the amount which would otherwise be abated, in which event the Lease Payments shall be payable from such amounts as a special obligation of the City.

### **Substitution of Facilities**

The Facilities Lease grants to the City the option to substitute other land, facilities and improvements for the existing Facilities or any portion thereof encumbered by the Facilities Lease, upon the satisfaction of certain conditions. See "APPENDIX C: SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

### **Limited Recourse on Default**

Failure by the City to make Lease Payments or other payments required to be made under the Facilities Lease, or failure to observe and perform in any material respect its other covenants and agreements under the Facilities Lease for a period of 30 days after written notice of such failure and request that it be remedied has been given to the City by the Trustee constitute events of default under the Facilities Lease and permit the Trustee to pursue remedies at law or in equity to enforce such covenants and agreements. In the event of a default, notwithstanding anything in the Facilities Lease or in the Trust Agreement to the contrary, THERE SHALL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE LEASE PAYMENTS OR OTHERWISE DECLARE ANY LEASE PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE.

The enforcement of any remedies provided in the Facilities Lease and the Trust Agreement could prove both expensive and time consuming. If the City defaults on its obligation to make Lease Payments with respect to the Facilities, the Corporation, or the Trustee, as assignee of the Corporation, may retain the Facilities Lease and hold the City liable for all Lease Payments on an annual basis. There is no remedy of acceleration of the total Lease Payments due over the term of the Facilities Lease, and the Trustee could be required to seek a separate judgment each year for that year's defaulted Lease Payments.

Alternatively, the Corporation, or the Trustee, as assignee of the Corporation, may terminate the Facilities Lease and proceed against the City to recover monetary damages pursuant to the Facilities Lease. See "APPENDIX C: SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

### **Limitations on Remedies Available to Owners of the Certificates**

The enforceability of the rights and remedies of the Owners of the Certificates and the obligations incurred by the City are subject to the following: the Federal Bankruptcy Code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; equity principles which may limit the specific enforcement under State law of certain remedies; the exercise by the United States of America of the powers delegated to it by the Federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations, of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of serving a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the Owners of the Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently entail risks of delay, limitation, or modification of the principal legal documents or their rights.

### **Tax Exemption of the Certificates**

The City has covenanted in the Trust Agreement that it shall not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest on the Certificates under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). The City shall not, directly or indirectly, use or permit the use of proceeds of the Certificates or any of the property financed or refinanced with proceeds of the Certificates, or any portion thereof, by any person other than a governmental unit (as such term is used in Section 141 of the Code), in such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of interest on the Certificates. In the event the City fails to comply

with the foregoing tax covenant, the interest component of the Certificates may be includable in the gross income of the Certificate Owners thereof for federal tax purposes, possibly from the date of delivery of the Certificates, and there is no requirement that Certificates be prepaid in such event. See "LEGAL MATTERS-Tax Exemption" herein.

## **THE CORPORATION**

The Corporation was organized pursuant to the Nonprofit Public Benefit Corporation Law of the State of California (Title 1, Division 2, Part 2 of the California Corporations Code), solely for the purpose of rendering assistance to the City by acquiring, constructing, improving and financing various public facilities for the use, benefit, and enjoyment of the public. The Corporation was formed at the request of the City. The directors of the Corporation receive no compensation.

## **THE FACILITIES**

The leased property relating to the Certificates is a 27-hole municipal golf course located in Balboa Park, formally identified as the Balboa Park Municipal Golf Course. This course is referred to herein as the "Facilities."

Balboa Park Municipal Golf Course encompasses 150 acres and includes one 18-hole and one 9-hole golf course. The 18-hole regulation course is approximately 6,080 yards in length and plays to a 72 par. Both golf courses are situated in the eastern portion of Balboa Park, adjacent to Florida Canyon and the U.S. Navy Hospital complex, overlooking downtown San Diego. They are both municipal golf courses which allow public play. The topography of the 18-hole course may be characterized as rolling, with the golf holes intermixed among the rolling hills and canyons of the area. The executive course is physically flat with a number of trees generally defining the fairway areas.

The Balboa Park Municipal Golf Course is operated by the City of San Diego Park and Recreation Department. Improvements to the 27-hole facility began in May, 1993 and finished in 1995. The project involved hole realignment and green replacement of 12 holes on the 18-hole course and reconstruction of all greens on the 9-hole course. Six greens on the 18-hole course were rebuilt by course staff. Benefits of the project included replacement of greens and tees, enhanced safety, improvements to the overall irrigation pressure and individual irrigation systems on some holes, increasing the total yardage by over 200 yards on the 18-hole course. The total estimated construction cost was \$1,600,000. This project was fully funded by golf fees accumulated prior to 1992.

The City has determined that the annual fair rental value of the Facilities is greater than the maximum annual Lease Payments due with respect to the Certificates.

## **LEGAL MATTERS**

### **Tax Exemption**

In the opinion of Brown & Wood LLP, Los Angeles, California, Special Counsel, based upon existing laws, regulations, rulings and judicial decisions and assuming compliance with certain covenants set forth in the Trust Agreement and the other financing documents and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the Certificates and the timely payment of certain investment earnings to the United States, the portion of each Lease Payment due under the Facilities Lease designated as and comprising interest with respect to the Certificates is not includable in the gross income of the holders of the Certificates for federal income tax purposes. Failure to comply with such covenants and requirements may cause the portion of each Lease Payment due under the Facilities Lease designated as and comprising interest with respect to the Certificates to be included in gross income retroactively to the date of execution and delivery of the Certificates.

In the further opinion of Special Counsel, the portion of each Lease Payment due under the Facilities Lease designated as and comprising interest with respect to the Certificates is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Such portion of each Lease Payment, however, is included as an adjustment in the calculation of federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax and environmental tax liabilities.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Special Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the Certificates should consult their tax advisors as to the applicability of any collateral tax consequences.

In the further opinion of Special Counsel, the portion of each Lease Payment due under the Facilities Lease designated as and comprising interest with respect to the Certificates is exempt from personal income taxes imposed by the State of California. A copy of the proposed form of Special Counsel legal opinion is attached hereto as Appendix D.

#### **Certain Legal Matters**

Brown & Wood LLP, Los Angeles, California, Special Counsel, will render an opinion with respect to the validity and enforceability of the Facilities Lease and the Trust Agreement. Copies of such approving opinion will be available at the time of delivery of the Certificates at the expense of the City. Special Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the City by Orrick, Herrington & Sutcliffe, Los Angeles, California, Disclosure Counsel, and for the City and the Corporation by the City Attorney.

#### **Litigation**

In *The City of San Diego et. al. v. Richard Rider et al.* the San Diego Superior Court was asked to decide the validity of a certain facilities lease related to improvements to San Diego Jack Murphy Stadium (the "Stadium"). The issue before the court was whether the City's obligation to pay base rental obligations under the facilities lease is a non-voter approved debt incurred in violation of the California State Constitution. Had it been held in that case that the obligations of the City under the facilities lease constitute unconstitutional debt and are therefore invalid, then the facilities lease would not be enforceable against the City. The City prevailed on these issues in Superior Court, but Rider appealed that decision. On July 30, 1996, the Court of Appeal affirmed the Superior Court's judgment in favor of the City. That judgment will be final August 29, 1996, after which Rider will have ten days to petition the California Supreme Court for review. Rider has also filed an action in the Superior Court in San Diego concerning the validity of the financing mechanism to be used in the expansion of the San Diego Convention Center (the "Convention Center"), raising the same issues that are involved in the Stadium litigation. The City's motion for summary judgment in the Convention Center case was granted on July 12, 1996; Rider's time to appeal this decision expires August 15, 1996.

While the ultimate outcome of the litigation described above cannot be predicted, the transactions involving both facilities leases are typical of transactions undertaken throughout California in the past and upon which special counsel have given unqualified approving opinions. Inasmuch as no assurance can be given as to the ultimate outcome of any pending litigation, no prediction can be made as to the prospective impact of the actions described above with respect to the enforceability of leases of the nature of the Facilities Lease herein.

There is, however, no litigation pending against the City or the Corporation nor, to the knowledge of the officers of the City and the Corporation, threatened, in any court or other tribunal of competent jurisdiction, state or federal, in any way (i) restraining or enjoining the execution, sale or delivery of any of the Certificates, (ii) questioning or affecting the validity of the Certificates, (iii) questioning or affecting the validity of any of the proceedings for the authorization, sale, execution or delivery of the Certificates, or (iv) questioning or affecting the validity or enforceability of the Facilities Lease or the Trust Agreement. Special Counsel will render an opinion as to the validity and enforceability of the Facilities Lease and the Trust Agreement when the Certificates are delivered. Such opinion will be unqualified with respect to the issues raised in the above-referenced Stadium and Convention Center litigation.

To the knowledge of the City, the Corporation and the City Attorney, there are pending against the City lawsuits and claims arising in the ordinary course of the City's activities which, taken individually or in the aggregate, could, if determinations are made adverse to the City, materially adversely affect the City's finances. However, taking into account insurance and self-insurance reserves expected to be available to pay liabilities arising from such actions, the City does not expect any or all such claims to have a material adverse effect on its ability to make Lease Payments when due.

### **RATINGS**

Moody's Investors Service and Standard & Poor's, a division of The McGraw Hill Companies, Inc., have assigned their municipal bond ratings of "Aa" and "A+", respectively, to the Certificates. The ratings issued reflect only the views of such rating agencies, and any explanation of the significance of such ratings should be obtained from such rating agencies. There is no assurance that such ratings will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by such respective rating agencies if, in the judgment of such rating agencies, circumstances so warrant. The City undertakes no responsibility either to bring to the attention of the owners of the Certificates any downward revision or withdrawal of any rating obtained or to oppose any such revision or withdrawal. Any such downward revision or withdrawal of any rating obtained may have an adverse effect on the market price of the Certificates.

### **UNDERWRITING**

Pursuant to the terms of the public bid dated July 31, 1996, BA Securities, Inc., as Underwriter, will purchase the Certificates from the City at the purchase price of \$11,630,903.33, representing a net underwriter's discount of \$89,086.67 (not including an original issue premium of \$9,705.35), plus accrued interest from August 1, 1996 to the date of delivery of the Certificates and will reoffer the Certificates pursuant to the terms and conditions set forth on the inside cover of this Official Statement. The Underwriter will be obligated to take and pay for all of the Certificates if any Certificate is purchased.

### **MISCELLANEOUS**

Kitahata & Company, San Francisco, California (the "Financial Advisor"), has entered into a contract to serve as financial advisor to the City with respect to the sale of the Certificates. The Financial Advisor is an independent firm that provides financial advisory services and does not engage in the underwriting, marketing, or trading of municipal securities or other negotiable instruments. The Financial Advisor assisted the City in the preparation of this Official Statement and in other matters relating to the planning, structuring, execution and delivery of the Certificates, and will receive a fee for these services payable from proceeds of the Certificates.



This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of documents referred to herein and information concerning the Certificates are available upon request with payment of copying, mailing and handling charges by contacting the City at the following address:

The City of San Diego  
202 "C" Street, MS 9B  
San Diego, California 92101  
Attention: Financial and Technical Services Manager

**CITY OF SAN DIEGO**

By: /s/Jack McGrory  
City Manager





## APPENDIX A

*The information and expressions of opinion set forth herein have been obtained from sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness. Statements contained herein which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of facts. The information and expressions of opinion herein are subject to change without notice, and neither delivery of this Official Statement nor any sale of the Certificates made thereafter shall under any circumstances create any implication that there has been no change in the affairs of the City or in any other information contained herein since the date of the Official Statement.*

### THE CITY OF SAN DIEGO

#### INTRODUCTION

With a total population of nearly 1.2 million in 1996 and an area of 403 square miles, the City of San Diego (the "City") is the sixth largest city in the nation and the second largest city in California. The City is the county seat for San Diego County (the "County") and is the County's business and financial center.

The City's population grew by 16% between 1987 and 1996 for an average increase of 16,400 annually. A major factor in the City's growth is its quality of life. In addition to having a favorable climate, the City offers a wide range of cultural and recreational services to both residents and visitors. With mild temperatures year round, the City's numerous beaches, parks, tennis courts and golf courses are in constant use.

Another factor in the City's growth is an expanding diversified economy. The City's economic foundation is based on four major areas: high tech manufacturing and research (including electronics, communications equipment, scientific instruments, drugs and biomedical equipment); professional services; tourism; and international trade.

Expansion in the "high tech manufacturing and research" component of the City's economic base has been led by the rapid emergence of telecommunications. Major participants in the City's telecommunications industry include manufacturers of personal communications equipment, radio/TV communications equipment, network communications equipment/systems, satellite communications equipment, and military surveillance/guidance systems. According to the California Employment Development Department ("EDD"), between 1991 and 1995 Countywide employment in the communications equipment manufacturing sector increased by 35 percent. The City is the primary location for telecommunications in the County, with the City's Sorrento Valley area emerging as a major center in the development and manufacturing of products using wireless and digital technology.

Another major component of the City's "high tech" industry is the health care technology cluster, which includes biotechnology companies involved in research and product development, biomedical firms engaged in the production and marketing of various types of medical devices and instruments, and pharmaceutical companies involved in developing chemical products for use in treatment of diseases and various medical conditions. According to EDD, between 1991 and 1995, Countywide employment in the health technology industry grew by 26 percent. As with telecommunications, the health technology industry is concentrated in the City, with the highest concentration in the area around the University of California, San Diego.

The City is also home to a growing software industry. Components within this industry include basic computer programming services, prepackaged software, systems integration services, and development of multimedia products. According to EDD, total Countywide employment in the Data Processing and Computer Services sector totaled 10,900 in 1995, an increase of 28% in the five year period 1991 to 1995. The Professional Services sector, which includes the Business Services, Health Services, Engineering and Management Services classifications, accounted for total Countywide employment of 172,100 in 1995, an increase of 21,700 jobs from 1991.

Contributing to the growth of the City's tourism industry has been the San Diego Convention Center. According to the San Diego Convention and Visitors Bureau (CONVIS), during 1995, delegates to conventions at the Convention Center generated total expenditures of \$253 million for the San Diego County economy; during the five year period 1991 to 1995, CONVIS estimates total spending by Convention Center delegates at \$920 million.

The City's emergence as a center for international trade has been made possible in part by the Port of San Diego, which offers world class maritime facilities built around one of the world's great natural harbors. In addition to a location that provides a natural link to Latin America and the Pacific Rim, the Port offers handling services at rates below those of other major west coast ports such as Los Angeles and San Francisco and has established itself as a niche port, attracting general cargo, including automobiles, chemicals and fruit.

## ECONOMIC AND DEMOGRAPHIC INFORMATION

### Population

Since 1987 the City's population has increased by 163,656 (or by approximately 16,400 new residents annually). While the rate of growth has slowed in recent years, the City's population still grew by 12,900 people in 1995.

**Table 1**  
**POPULATION GROWTH**  
**Calendar Years 1987 Through 1996**

<u>Calendar Year</u>	<u>City of San Diego[1]</u>	<u>Annual Growth Rate</u>	<u>County of San Diego[2]</u>	<u>Annual Growth Rate</u>	<u>State of California</u>	<u>Annual Growth Rate</u>
1987	1,019,444	2.4%	2,248,500	3.6%	27,655,000	2.4%
1988	1,044,137	2.4%	2,328,300	3.6%	28,323,000	2.4%
1989	1,073,186	2.8%	2,418,200	3.9%	29,063,000	2.6%
1990	1,110,549	3.5%	2,498,016	3.3%	29,760,021	2.4%
1991	1,126,000	1.4%	2,539,600	1.7%	30,296,000	1.8%
1992	1,141,300	1.4%	2,583,500	1.7%	30,845,000	1.8%
1993	1,156,200	1.3%	2,614,200	1.2%	31,303,000	1.5%
1994	1,163,000	0.6%	2,638,500	0.9%	31,661,000	1.1%
1995	1,170,200	0.6%	2,658,600	0.8%	31,910,000	0.8%
1996	1,183,100	1.1%	2,690,300	1.2%	32,231,000	1.0%

[1] City Planning Department's January 1 estimates which are based on the U.S. Census counts or official State Department of Finance estimates.

[2] U.S. Census 1990; State Department of Finance estimates for 1987-89 and 1991-1996.

As indicated in the following table, enrollment in the San Diego Unified School District has continued to grow at a relatively moderate pace during the first half of the 1990's.

**Table 2**  
**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**ENROLLMENT AND ATTENDANCE**  
**School Year 1991-92 Through 1995-96**

<u>School Year</u>	<u>Enrollment</u>	<u>Average Daily Attendance</u>
1991-92	123,615	120,448
1992-93	125,125	121,800
1993-94	127,161	123,509
1994-95	129,539	124,992
1995-96	130,119	127,892

Source: San Diego Unified School District.

### Employment Summary

As seen in Table 3, the City's unemployment rate for calendar year 1995 averaged 6.6%, which was down from a 7.3% rate during calendar year 1994. The City's 1995 unemployment rate was lower than the State's at 7.8%, but above the national rate of 5.6%.

**Table 3**  
**ESTIMATED AVERAGE ANNUAL EMPLOYMENT AND**  
**UNEMPLOYMENT OF RESIDENT LABOR FORCE**

<u>Civilian Labor Force</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996 [2]</u>
- City of San Diego					
Employed	509,700	518,200	525,800	525,600	526,700
Unemployed	41,000	44,100	40,500	36,500	29,700
<b>Unemployment Rates [1]</b>					
City	7.4%	7.8%	7.2%	6.6%	5.3%
County	7.3%	7.7%	7.0%	6.4%	5.2%
California	9.1%	9.2%	8.6%	7.8%	7.3%
United States	7.4%	6.8%	6.1%	5.6%	5.4%

[1] The unemployment rate is computed from unrounded data and may differ from rates using the rounded figures in this table.

[2] Estimates as of March 1996.

Sources: State of California Employment Development Department, Labor Market Information Division; U.S. Department of Labor, Bureau of Labor Statistics.

No annual information is regularly compiled on employment by sector for the City alone. As shown in Table 4, during the period 1991 to 1995, total nonagricultural wage and salary employment in the County recorded a net increase of 12,400 new jobs. The City believes that the net growth figure of 12,400 understates the total job creation which occurred during this period. According to EDD, a total of 47,700 new jobs were added during the period, while 35,300 jobs were being lost due to a combination of recession and restructuring.

**Table 4  
SAN DIEGO COUNTY  
WAGE AND SALARY EMPLOYMENT [1]**

	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Mining	600	500	400	400	300
Construction	47,000	43,100	39,500	40,600	43,100
Manufacturing	131,000	124,100	117,500	114,100	114,000
Nondurable Goods	28,500	30,800	32,300	32,300	31,600
Durable Goods	102,500	93,300	85,200	81,800	82,400
Transp., Public Utilities	35,900	34,800	35,700	36,400	37,300
Trade	231,700	221,400	225,500	227,000	229,600
Wholesale	42,400	42,300	39,700	42,000	43,800
Retail	189,300	179,100	185,800	185,100	185,800
Fin., Insur., Real Estate	62,800	61,100	62,200	59,100	55,300
Services	274,600	283,600	287,300	296,100	310,600
Government	178,900	179,300	179,100	181,500	184,700
Federal	47,100	45,400	44,300	45,400	45,800
State and Local	131,800	133,900	134,700	136,100	138,900
Total Nonagricultural	982,500	947,800	947,200	955,300	974,900

[1] Figures may not add to total due to independent rounding.

Sources: State of California Employment Development Department; U.S. Department of Labor, Bureau of Labor Statistics.

**Manufacturing.** Manufacturing employment in San Diego County has been impacted by reductions in defense spending and the sell off and relocation of activities of the General Dynamics Corporation. The loss of aerospace jobs has been partially offset by an influx of jobs in other high tech industries. Based on EDD payroll data, between 1991 and 1995, a total of 15,900 aerospace jobs with an average payroll of \$36,700 were lost, while during this same period, a total of 12,100 jobs were added in other high tech industries, paying an average annual wage of \$38,600.

**Construction.** Construction employment in the County grew by 2,500 during 1995, after increasing by 1,100 during 1994.

**Transportation, Communications & Utilities.** The Transportation, Communications and Utilities industry classification added 900 new jobs in the County during 1995, with all of the growth occurring in the Transportation component. The Communications and Utilities component was unchanged for the year.

**Retail and Wholesale Trade.** Accounting for approximately 24% of total nonagricultural wage and salary employment in the County were the Retail and Wholesale trade sectors. Wholesale trade employment in the County increased by 4.3% in 1995, after increasing by 5.8% during 1994. Retail trade employment increased by 700 in 1995, after falling by 700 in 1994.

**Finance, Insurance and Real Estate.** Countywide employment in the Finance, Insurance and Real Estate sector decreased by 3,800 jobs, or by 6.4%, during 1995, with all of the loss occurring in the Finance component.

**Services.** Employment in the County's Services sector grew by 4.9% in 1995, adding 14,500 jobs, following a gain of 8,800 jobs the previous year. All of the major components within the Services category recorded increases in 1995, with the largest increases occurring in Business Services, which includes software and data processing services.

**Government.** The Government sector, which accounted for 19% of total 1995 nonagricultural wage and salary employment in the County, grew by 1.8% during 1995, with all of the increase occurring among State and Local government agencies; federal employment was down by 100 jobs during the year.

**Military Employment And Civilian Defense Spending.** According to the San Diego Chamber of Commerce, in 1994 the U.S. Department of Defense contributed about \$9 billion to the County's economy through wages paid to uniformed military and civilian personnel and purchases of equipment and services from local businesses. The \$9 billion spending figure for the County was second only to Los Angeles County among California counties. According to the San Diego Union-Tribune, the twelve military bases in the County had a total military population of 126,300 and a civilian workforce of 32,700. Table 5 below presents the number of people working in military installations located in the City.

<p align="center"><b>Table 5</b>  <b>EMPLOYMENT PROVIDED BY U.S. MILITARY</b>  <b>INSTALLATIONS LOCATED IN THE CITY</b>  <b>As of February 1995</b></p>		
<u>Base</u>	<u>Military Personnel</u>	<u>Civilian Personnel</u>
Miramar Naval Air Station [1]	11,000	2,400
San Diego Naval Medical Center	3,155	1,208
Naval Training Center [2]	1,064	522
Marine Corps Recruit Depot	1,550	850
Naval Command, Control and Oceans Surveillance Center	100	3,950
Naval Submarine Base	6,311	166
<u>San Diego Naval Station</u>	<u>42,949</u>	<u>9,096</u>
<b>Total Personnel</b>	<b>66,129</b>	<b>18,192</b>

[1] Miramar is in the process of being converted to a Marine air base.  
[2] The Naval Training Center has been selected for closure by the Base Realignment and Closure Commission. All recruit training activities have been discontinued and all remaining activities will be terminated in 1997.

Source: San Diego Union-Tribune.

According to the San Diego Chamber of Commerce, San Diego County, with a total military and civilian payroll of \$3.7 billion in the federal fiscal year 1994, led all counties in the nation in terms of combined military and civilian payrolls. Total civilian defense contracts awarded to County-based businesses totaled \$2.3 billion during the federal fiscal year 1994, down from \$3.7 billion in the previous year, but down only \$200 million from the federal fiscal year 1992 levels. Despite recent reductions, civilian defense contracting continues to be a significant part of the City's economy.

Under the latest recommendations of the Base Closure and Realignment Commission (BRAC '95), which have been approved by the President, the City will actually see an increase in local military spending, while overall federal defense spending continues to decline. Of major significance will be the relocation of the U.S. Space and Naval Warfare Systems Command (SPAWAR) from Virginia to San Diego. According to the San Diego Chamber of Commerce, SPAWAR should have a substantial direct effect on the economies of both the City and the County, with an annual budget of \$4 billion, including \$2.8 billion in private sector contracts, and a workforce of 1,133 military and civilian personnel.

The impact of SPAWAR will extend beyond the immediate effects of its direct administrative activities because of a federal regulation which requires that private contractors with SPAWAR contracts have facilities within the immediate area. It is estimated that these indirect effects could generate an additional 1,000 to 2,000 jobs for the San Diego County economy.

In addition to the SPAWAR recommendation, BRAC '95 also recommended the closure of the Long Beach Naval Shipyard, which had 3,100 civilian employees. The shutdown of the Long Beach facility should result in increased activity for the City's shipyards. According to the San Diego Chamber of Commerce's 1995 San Diego County Business Directory, of the seven shipbuilding and repair firms in the County with more than 100 employees, six are located in the City, including the largest, the National Steel and Shipbuilding Company, with more than 3,000 employees.

To expedite plans for the transformation from military to civilian use of the military bases in California selected for closure by BRAC '95, the Governor of California established a Base Reuse Task Force, with San Diego Mayor Susan Golding as Chairperson. The Commission's purpose is to promote the rapid conversion of these installations to civilian and government uses that maximize job creation and long term economic growth. Within the City of San Diego, emphasis is on the rapid conversion of the Naval Training Center (NTC). The City Council has approved a recommendation to use a portion of the NTC property for the construction of approximately 500 units of Navy housing.

### **Tourism**

Tourism and international trade are sectors of the economy that cut across industry lines, and, as such, should be considered separately from the more specific industry classifications addressed in the preceding section.

According to the San Diego Chamber of Commerce, the visitor industry is the County's third largest industry in terms of income generation, behind manufacturing and the military. As shown in Table 6, the total visitor spending in the County totaled \$3.8 billion in 1995, up 4.4% from 1994 and up by almost 16% from 1991.

Table 6 TOTAL VISITOR SPENDING SAN DIEGO COUNTY Calendar Years 1991 through 1995 (\$ billions)	
<u>Year</u>	<u>Amount</u>
1991	\$3.28
1992	3.51
1993	3.45
1994	3.64
1995	3.80

Source: San Diego Convention & Visitors Bureau.

As shown in Table 7, contributing to the growth in visitor spending has been a sharp increase in convention activity spending. Spending by convention delegates at the San Diego Convention Center totaled \$243.7 million in 1995, up from \$124 million in 1991.



**Table 7**  
**SAN DIEGO CONVENTION CENTER**  
**Calendar Years 1991 through 1995**

<u>Calendar Year</u>	<u>Estimated Spending</u>	<u>Number of Conventions</u>	<u>Total Delegate Attendance</u>
1991	\$123,181,530	36	195,930
1992	184,575,546	39	317,500
1993	160,112,046	52	236,600
1994	210,435,456	48	232,600
1995	243,669,716	49	330,510

Note: Table includes only the San Diego Convention Center; it does not include other sources of convention activity in the San Diego region.

Source: San Diego Convention & Visitors Bureau.

The City of San Diego is the focal point for tourism in San Diego County. The Convention Center, approximately 75% of the County's hotel and motel rooms and all of the County's major tourist attractions, including the world-renowned San Diego Zoo, the San Diego Wild Animal Park and Sea World, are located in the City. Other attractions located in the City include the Cabrillo National Monument on Point Loma, the historic Gaslamp Quarter in the downtown area, the Old Town State Park, and Balboa Park – home to the San Diego Zoo and a host of other cultural and recreational activities. According to the San Diego Chamber of Commerce, total attendance at all of these attractions, excluding Sea World, totaled 17.8 million during 1995, up 5.3% from 1994.

In addition to the many permanent attractions available to visitors, the City has also been host to a number of major events. The City recently hosted the 1995 America's Cup and has been selected to host Super Bowl XXXII, scheduled for January 1998. In addition, the City is the site for the Republican National Convention to be held in August 1996.

Associated with the growth in tourism has been the increase in traffic through San Diego's Lindbergh Field International Airport, which recorded a record 6.6 million arrivals during 1995, up 2.2% from 1994, and up by 1 million passengers from 1991's total of 5.7 million.

#### **International Trade**

Based on data compiled by the U. S. Dept. Of Commerce for the San Diego Customs District, which includes San Diego and Imperial Counties and a portion of Riverside County, during the period from calendar years 1991 through 1995, the County experienced substantial growth in the volume of international trade. Table 8 below indicates that during 1995, the total dollar value of international trade passing through the San Diego Customs District totaled \$15.0 billion, up 15% from 1994, with exports up 9% and imports up 20%.

**Table 8**  
**VALUATION OF INTERNATIONAL TRADE**  
**SAN DIEGO CUSTOMS DISTRICT**  
**Calendar Years 1991 through 1995**  
**(\$ billions)**

<u>Year</u>	<u>Amount</u>
1991	\$8.7
1992	10.1
1993	10.8
1994	13.0
1995	15.0

Source: U.S. Department of Commerce.

With its border location and a diversified manufacturing base, the City believes it is well positioned to take advantage of the North American Free Trade Agreement (NAFTA) and the potential demand of Mexico's economy. This is reflected by the rapid growth of the City's industrial complex located on the Otay Mesa industrial area adjacent to the border with Mexico. Many of the Otay Mesa facilities are twin plants, or "maquiladora", with operations both in the U.S. and Mexico.

### Major Employers

The City of San Diego is host to a diverse mix of major employers representing industries ranging from education and health services, to diversified manufacturing, financial services, retail trade and amusement and recreation. The following table lists the major employers in the City as of 1996. All of the businesses listed below have their main offices in the City, with many having branch offices and/or production facilities in other areas of the County.

**Table 9**  
**MAJOR EMPLOYERS [1]**  
**1996**

<u>Company</u>	<u>Product/Service</u>
<b>10,000 or More Employees</b>	
San Diego Unified School District	Education
Sharp Health Care	Health Services
University of California, San Diego	Higher Education
<b>5,000-9,999 Employees</b>	
San Diego Community College District	Higher Education
Scripps Institutions of Medicine and Science	Health Services
U.S. Postal Service	Services
<b>3,000-4,999 Employees</b>	
Cubic Corporation	Electronic Systems
Kaiser Permanente Medical Care Program	Health Care
National Steel & Shipbuilding Co.	Shipbuilding, Repair
Qualcomm	Wireless Communications
Pacific Bell	Utility
Rohr Industries	Aerospace
San Diego Gas & Electric	Utility
San Diego State University	Higher Education
Science Applications International Corp.	Research and Development
Solar Turbines, Inc.	Gas Turbine Manufacturing
University of California San Diego Medical Center	Health Services
<b>2,000-2,999 Employees</b>	
Bank of America	Banking
Catholic Diocese of San Diego	Churches/Schools
Foodmaker	Food Services
Home Depot	Building Materials
Lucky Stores	Food Services
Manpower Temporary Services	Employment Services
Mercy Hospital & Health Centers	Health Care
Nordstrom	Retail
Palomar Pomerado Health Systems	Health Care
Price Club & Costco Wholesale	Wholesale Warehouses
Sony Engineering & Manufacturing of America	Electronics
Target Stores - San Diego	Retail
Vons Grocery Company	Food Services
Wal-Mart	Retail
Wells Fargo Bank	Banking

[1] Does not include various major public employers, including the City, the County and the federal government other than the U.S. Postal Service.

Source: Greater San Diego Chamber of Commerce

## Effective Buying Income

"Effective Buying Income", also referred to as "disposable" or "after-tax" income, consists of personal income less personal tax and certain non-tax payments. Personal income includes wages and salaries, other labor-related income (such as employer contributions to private pension funds), and certain other income (e.g., proprietor's income; rental income; dividends and interest; pensions; and welfare assistance). Deducted from this total are personal taxes (federal, state and local), certain non-tax payments (e.g., fines, fees and penalties), and personal contributions to a retirement program.

Table 10 shows the per capita Effective Buying Income for the City, the County, the State and the United States between calendar years 1991 and 1995.

<b>Table 10</b> <b>PER CAPITA EFFECTIVE BUYING INCOME</b> <b>Calendar Years 1991 through 1995</b>				
	<u>City of</u> <u>San Diego</u>	<u>County of</u> <u>San Diego</u>	<u>State of</u> <u>California</u>	<u>United</u> <u>States</u>
1991	\$16,377	\$16,067	\$15,741	\$13,952
1992	15,819	15,681	15,843	14,702
1993	16,181	15,947	16,124	15,255
1994	16,667	16,485	16,672	16,064
1995	17,220	17,034	17,275	16,918

Source: Sales & Marketing Management Magazine  
"Survey of Buying Power."

## Building Permits

Table 11 provides a summary of the building permit valuations, and the number of new dwelling units authorized in the City for the Fiscal Years 1991 through 1995.

<b>Table 11</b> <b>BUILDING PERMIT VALUATIONS</b> <b>AND NUMBER OF DWELLING UNITS</b> <b>Fiscal Years Ended June 30, 1991 through 1995</b>					
<u>Valuation</u> <u>(in thousands)</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Residential	\$516,072	\$380,666	\$319,210	\$475,878	\$432,957
Nonresidential	<u>421,476</u>	<u>271,020</u>	<u>301,123</u>	<u>325,245</u>	<u>382,514</u>
Total	<u>\$937,548</u>	<u>\$651,686</u>	<u>\$620,333</u>	<u>\$801,123</u>	<u>\$815,471</u>
<b>Number of New Dwelling Units</b>					
Single Family	1,413	1,018	1,118	1,860	1,440
Multiple Family	<u>2,609</u>	<u>1,914</u>	<u>881</u>	<u>992</u>	<u>1,212</u>
Total	<u>4,022</u>	<u>2,932</u>	<u>1,999</u>	<u>2,852</u>	<u>2,652</u>

Source: City of San Diego, Development Services Department

## Business Development Program

The City recognizes the need to improve the local business climate and aggressively support economic development and job creation activities. To achieve this, the City has established a comprehensive Business Development Program. A key element of this program is the Business Expansion and Retention Program which represents a new pro-active effort on the part of the City to work directly with businesses to improve the retention rate among local firms and to expand the level of investment and job growth.

A primary focus of the City's overall business development effort is to streamline the current permitting process and, when feasible, to eliminate or reduce existing fees and permits. To facilitate this process within the City, an Economic Development Cabinet (EDC), composed of those City departments directly involved in the permitting process (Engineering and Development, Building Inspection, Planning, and Neighborhood Code Compliance), was established. The specific objective of the EDC is to establish a "one-stop" permitting process that will reduce the development permit processing time by as much as one-half. As part of the City's Economic Strategic Plan, the City's Ombuds Program staff work directly and proactively with businesses to provide assistance that results in the retention and expansion of jobs and investment in the City. In Fiscal Year 1995, the City estimates that its proactive assistance helped to create and retain at least 10,000 jobs. The total valuation of building permits expedited is estimated to be more than \$97 million. The following are some of the companies which constructed new facilities in the City in 1995:

<u>Name</u>	<u>Product/Service</u>	<u>Approximate Sq. Ft. Added</u>
Qualcomm	Telecommunications Manufacturer	225,800
Intuit	Software development	136,271
Hewlett-Packard	Computer Peripherals Manufacturer	133,695
Target	General Merchandise Retailer	123,700
Howard Leight Industries	Manufacturing - Hearing Protection Devices	100,614
ThermoTrex Corporation	Research and Development	90,000
Delimex	Frozen Food Processor	77,797
Waxie	Wholesaler	53,173

Source: Economic Development Services, The City of San Diego

As part of the City's efforts to make San Diego more business-friendly, the City Council opened the City's Business Resource Station in 1993, which is an interactive information center designed to provide aspiring entrepreneurs with everything they need to know about starting a small business in the City of San Diego. In 1994, the City Council reduced the Business License Tax for all businesses with 12 or fewer employees from \$125 and \$5 per employee to \$70 per business and \$3 per employee, and in July 1995 reduced it even further, to a flat fee of \$34 per business with no per employee charge. In addition, at the City's request, the County's Air Pollution Control District exempted more than 50 City employers from having to file required traffic abatement plans or from having to pay the filing fee.

### **Commercial Development Activity**

In downtown San Diego, significant commercial development has occurred over the last several years as a result of the City's redevelopment efforts. Planning and design are currently underway for an expansion of Seaport Village, a 13-acre specialty retail development next to the Convention Center; the expansion will include an additional 150,000 square feet of retail and related parking. Horton Plaza, a major mixed-use retail, entertainment and parking complex, with 900,000 square feet of mixed-use space, two major department stores and approximately 150 specialty shops, added a 12,750 square-foot restaurant as part of a \$16 million renovation completed in March 1995.

Construction is underway on 321 condominium units and plans for two apartment projects, Cortez Hill and Marina Walk, were recently approved by the Centre City Development Corporation. The combined value of the two projects is estimated to be \$57 million.

The San Diego Convention Center, with 254,000 square feet of prime exhibit space, costing approximately \$160 million, was completed in November 1989. The Center will nearly double its size by mid-1999 by adding 276,000 square feet of exhibit space and 100,000 square feet of meeting rooms. According to a study conducted by CIC Research, Inc. and Price Waterhouse, this \$197 million expansion (including \$29 million for related infrastructure improvements) is projected to increase the Convention Center's annual economic impact (from direct and indirect spending) to the San Diego

region (comprised of the City and balance of County) from the current \$641 million to \$1.02 billion. In addition, preliminary planning and site analysis has begun on a proposed downtown sports arena. Any new development is subject to general and local economic conditions as well as the availability of funding sources.

### **Research Facilities**

Among the more important research facilities located in the City are the Scripps Clinic and Research Foundation, the Naval Electronics Laboratory Center, the Palomar Observatory and the Salk Biological Research Institute.

The City was selected as one of the three joint work sites for the Engineering Design Phase of the International Thermonuclear Experimental Reactor (ITER) project, an internationally funded program to demonstrate the scientific and technological feasibility of using magnetic fusion as a source of electrical power; the other two work sites are in Germany and Japan. The San Diego work site primarily focuses on project integration and the estimated cost of this phase of the program at all work sites is \$1.1 billion. The ITER facility is located in the City's Torrey Pines Science Park. The University of California at San Diego, through its subcontractor Science Applications International Corporation, provides administrative oversight and on-site operational support. The project is expected to serve as a spawning ground for spinoff technologies and businesses, similar to the role played by the Scripps and Salk Institutes, two organizations that provided the catalyst for the City's biomedical industry.

The Software Resource Center was established in 1995 by the joint effort of the San Diego Private Industry Council, CONNECT of the University of California, San Diego, and the San Diego Council of the American Electronics Association. This Center provides platform testing, custom software testing and hi-tech lab facilities for the City's high technology industries.

### **San Diego-Based Companies In Growth Industries**

The following is a list of companies headquartered in the City which are active in certain industries, including telecommunications, software development, biotechnology, electronics, golf equipment, and research and development. The information provided includes the year incorporated and a brief description of the product/service provided.

<u>Company</u>	<u>Profile/Comments</u>
Qualcomm, Inc. (1985).....	Qualcomm develops, manufactures, markets, licenses, and operates advanced communications systems and products based on digital wireless technology.
Encad, Inc. (1981).....	Encad designs, manufactures and markets wide-format, color inkjet printer/plotters for computer applications.
Science Applications International..... Corporation (SAIC) (1969)	Science Applications is a diversified high-technology research and engineering company involved in technology development and analysis, computer system development and integration, technical support services, and computer hardware and software products.
Aldila, Inc. (1972).....	Aldila is a leading designer and manufacturer of high-quality innovative graphite golf shafts and currently has approximately one-half of the U.S. graphite shaft market.
Visicom Laboratories, Inc. (1988).....	Develops software for communications, simulation, training and graphical interface.
Dura Pharmaceuticals (1981).....	Dura is a specialty pharmaceutical company engaged in the sale, marketing and development of prescription pharmaceuticals for the treatment of asthma, hay fever, the common colds and other respiratory ailments.

Cohu, Inc. (1944).....	Cohu, Inc. manufactures and supplies closed circuit television cameras and systems, microwave radio and equipment, metal detectors, and gravity feed integrated circuit test handlers.
Cubic Corporation (1984).....	Cubic designs, develops, and manufactures electronic products such as military range instrumentation, communications and surveillance systems, avionics, and ticket vending machines.
Proxima Corporation (1982).....	Proxima designs, develops, manufactures and markets liquid crystal display projection products that bring power and flexibility to computers.
Ligand Pharmaceuticals (1987).....	Develops drugs that regulate hormone activated intracellular receptors (IRs). IRs help regulate the genetic processes affecting many diseases, including cancer, cardiovascular, inflammatory & skin diseases.

Source: City of San Diego, Financing Services Division

## Transportation

San Diego has a well-developed and relatively uncongested highway system. Access in and out of the region is provided by five major freeways running north and south and three freeways running east and west.

Public transportation through the City and metropolitan surrounding communities is provided by the San Diego Metropolitan Transit Development Board ("MTDB"). The San Diego Trolley, Inc. operates a fleet of electric trolleys that provides transportation for commuters and tourists from downtown San Diego to San Ysidro (adjacent to Tijuana), and from downtown San Diego to Southeast San Diego County and East County. The trolley provides transportation service from downtown San Diego to the waterfront area, including the Convention Center. A \$111.2 million extension that will provide service from downtown to the historical Old Town section of the City was recently completed. The Old Town extension, which features an 1871 vintage terminal located in the Old Town State Park, opened in June 1996. In addition, construction is in progress on the next extension, which will go from Old Town through the Mission Valley area, ending at San Diego Jack Murphy Stadium. Service is scheduled to begin on the Mission Valley extension in late-1997. The East Line extension to Santee was recently completed. This 3.6 mile, \$109 million extension connects El Cajon with Santee. A 43-mile Coaster Commuter rail line from Oceanside to downtown San Diego came into service in February 1995. This line links communities along the coast from Oceanside to Del Mar with downtown San Diego and is operated by North County Transit District ("NCTD").

Proposition A, voter approved in November 1987, authorized a one-half cent increase to the local sales tax to fund transportation improvements for the San Diego region. The City of San Diego expects to receive \$123 million from this source during Fiscal Years 1994-2000.

State Propositions 108/111/116, voter approved in June 1990, increased the State gas tax and authorized the sale of rail bonds. The revenues generated from these measures are to be used to implement a comprehensive Statewide transportation funding program through the year 2000. Increased revenues to the City of San Diego resulting from Proposition 111's increased gas tax subventions are estimated at \$66.7 million over the ten year period from 1991 through 2000. Revenues from this source supplement the City's street maintenance program, and contribute to capital improvements.

State Proposition 108, the Passenger Rail and Clean Air Act, also authorized the sale of general obligation rail transit bonds by the State of California. These rail bonds are to be used to fund up to 50% of the non-Federal cost of eligible projects throughout the State. Eligible transit projects under this program include trolley and commuter rail corridors, with a possibility of \$100 to \$150 million available for trolley and commuter rail projects within the San Diego region. The designated recipients to develop rail infrastructure in the region are MTDB and NCTD.

A related State ballot measure, Proposition 116, the Clean Air and Transportation Improvement Act, generated revenue from the sale of \$1.99 billion in general obligation rail bonds providing specific allocations to finance rail infrastructure, including intercity, commuter and light rail transit statewide. Similar to State Proposition 108, MTDB and NCTD would be the designated recipients for the San Diego region; \$45 million is estimated to be spent in San Diego County.

## **MUNICIPAL GOVERNMENT AND FINANCIAL INFORMATION**

### **Governmental Organization**

The City of San Diego is a charter city and operates under the Council-Manager form of government. The City Council is comprised of eight members elected by district to serve overlapping four-year terms. The Mayor, who presides over the City Council, is elected at large to serve a four-year term. The City Council, which acts as the City's legislative and policy-making body, selects the City Manager, who is the City's chief administrator and is responsible for implementing the policies and programs adopted by the City Council.

### **Accounting Practices**

The City's accounting policies conform to generally accepted accounting principles applicable to governmental units. The City's Governmental Funds and Expendable Trust and Agency Funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when both available and measurable. Certain fines and forfeitures, however, are recorded when received as they are not susceptible to accrual. Expenditures are recognized when the related liability is incurred except for (1) principal of and interest on general long-term debt which are recognized when due; and (2) employee annual leave and claims and judgments for litigation and self-insurance which are recorded in the period due and payable. Proprietary Fund, Pension Trust and Nonexpendable Trust Funds use the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred.

The City prepares financial statements annually in conformity with generally accepted accounting principles for governmental entities which are audited by an independent certified public accountant. The annual audit report is generally available about 285 days after the June 30 close of each fiscal year. The City's most recent general purpose financial statements for the Fiscal Year ended June 30, 1995 were audited by Calderon, Jaham & Osborn, CPAs.

### **Budgetary Process**

The City's annual budget, which is published in November, is the culmination of the annual budget process which begins in the fall of the preceding year. Public input on service and program priorities is solicited. This input serves as part of the City Council's priority setting for the development of the budget.

Based upon City Council budget priorities, departments submit operating and capital improvement project requests to the City Manager for review by the Financial and Technical Services Department. The City Manager evaluates and prioritizes the program requirements, determines funding availability and develops a balanced budget as required by the City Charter. This proposed balanced budget is published and presented to the City Council during April.

City Council review of the proposed budget is conducted during May and June. The first two meetings are dedicated to public comment, while the balance of the meetings are conducted as Council workshops focusing on policy issues.

As required by the City Charter, the City Council adopts the Annual Budget and Appropriation Ordinance no earlier than the date of the first Council meeting in July and no later than the last meeting in July. The adoption of the Appropriation Ordinance requires two noticed public hearings

which are usually held on consecutive days. The Annual Tax Rate Ordinance is adopted no later than the last Council meeting in August.

The Financial and Technical Services Department works closely with the City Auditor and Comptroller to monitor fund balances. Variations from budget or plans are alleviated in a number of ways, including expenditure reductions or deferrals. Short-term issues are resolved with short-term solutions. Because the recent recessionary environment lasted longer than usual, the City has begun to implement longer term solutions such as using the City's revenue raising flexibility and making permanent reductions to programs.

#### Five Year Summary of Financial Results

Tables 12 and 13 present the Balance Sheet and the Revenue and Expenditure statements of the City's General Fund for Fiscal Years 1991 through 1995.

<b>Table 12</b> <b>CITY OF SAN DIEGO</b> <b>BALANCE SHEET FOR THE GENERAL FUND</b> <b>Fiscal Years Ended June 30, 1991 through 1995 (in thousands)</b>					
<b>ASSETS</b>	<b>1991</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>
Cash/Equity in Pooled Cash & Investments	\$38,853	\$22,009	\$21,450	\$21,384	\$16,394
Receivables:					
Taxes-Net	11,588	18,701	15,366	22,276	21,164
Accounts-Net	5,402	7,393	16,076	16,726	21,449
Claims-Net	259	225	5	29	31
Notes	-	-	-	-	182
Accrued Interest	2,666	1,934	2,277	2,139	2,411
From Other Funds	134	43	35,534	2,171	358
From Other Agencies	70	70	70	70	70
Advances to Other Funds	26,417	24,427	21,869	15,719	10,980
Advances to Other Agencies	350	350	350	350	350
Prepd. Reimb. Items & Deposits	331	301	784	928	1,065
<b>Total Assets</b>	<b>\$85,870</b>	<b>\$75,453</b>	<b>\$113,781</b>	<b>\$81,792</b>	<b>\$74,454</b>
<b>LIABILITIES</b>					
Obligations Under Rev. Repurchase Agrs.	\$10,810	\$884	\$1,349	\$1,364	\$2,180
Accounts Payable	3,319	2,493	2,606	1,451	2,633
Accrued Wages and Benefits	12,947	15,710	16,794	18,597	8722
Deferred Revenue	11,227	19,549	18,766	25,536	29,905
Contracts and Notes Payable	-	-	35,500	-	-
<b>Total Liabilities</b>	<b>\$38,303</b>	<b>\$38,636</b>	<b>\$75,015</b>	<b>\$46,948</b>	<b>\$43,440</b>
<b>FUND BALANCE</b>					
Reserves:					
Reserved for Encumbrances	\$10,559	\$6,101	\$7,313	\$8,487	\$5,323
Reserved for Advances & Deps.	26,847	24,777	22,219	16,069	11,330
Unreserved:					
Desig. for Subseq. Yrs. Exp.	4,453	3,422	3,211	2,959	2,871
Undesignated	5,708	2,517	6,023	7,329	11,490
<b>Total Fund Equity</b>	<b>\$47,567</b>	<b>\$36,817</b>	<b>\$38,766</b>	<b>\$34,844</b>	<b>\$31,014</b>
<b>Total Liabilities &amp; Fund Balance</b>	<b><u>\$85,870</u></b>	<b><u>\$75,453</u></b>	<b><u>\$113,781</u></b>	<b><u>\$81,792</u></b>	<b><u>\$74,454</u></b>
Source: City of San Diego, Comprehensive Annual Financial Report.					



**Table 13**  
**CITY OF SAN DIEGO**  
**STATEMENT OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE FOR THE GENERAL FUND**  
**Fiscal Years Ended June 30, 1991 through 1995 (in thousands)**

REVENUES	1991	1992	1993	1994	1995
Property Taxes & Special Assessments	\$127,052	\$132,786	\$121,314	\$112,602	\$112,472
Other Local Taxes	130,941	135,215	144,323	145,269	148,591
Licenses and Permits	16,556	19,054	19,909	25,509	25,820
Fines, Forfeitures & Penalties	17,595	13,993	13,951	16,232	16,902
Revenues from Use of Money & Property	30,208	26,842	23,994	22,471	25,445
Revenues from Federal Agencies	68	446	277	418	540
Revenues from Other Agencies	43,195	40,941	41,407	44,176	42,854
Charges for Current Services	45,028	53,625	52,628	62,032	68,435
Other Revenue	2,354	2,548	2,157	1,987	3,136
<b>Total Revenues</b>	<b>\$412,997</b>	<b>\$425,450</b>	<b>\$419,960</b>	<b>\$430,696</b>	<b>\$444,195</b>
<b>EXPENDITURES</b>					
General Government	\$71,387	\$72,510	\$71,202	\$73,925	\$78,547
Public Safety	216,915	230,213	231,348	238,818	249,638
Libraries	13,848	15,278	15,277	16,469	17,052
Park, Recreation & Culture	40,218	41,415	40,248	40,093	42,574
General Services	55,416	57,825	57,375	58,762	60,135
Engineering & Development	17,859	22,188	22,664	21,899	22,365
Employment & Social Services	313	436	463	505	492
Misc. and Unallocated	15,462	10,125	2,305	2,003	1,985
Capital Projects	96	-	-	-	-
<b>Total Expenditures</b>	<b>\$431,514</b>	<b>\$449,990</b>	<b>\$440,882</b>	<b>\$452,474</b>	<b>\$472,788</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(18,517)</b>	<b>(24,540)</b>	<b>(20,922)</b>	<b>(21,778)</b>	<b>(28,593)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers from Proprietary/Fiduciary Funds	4,106	788	1,073	614	913
Transfers from Other Funds	13,588	17,277	34,222	30,200	30,119
Transfers to Proprietary Funds	(4,679)	(167)	(8,399)	(10,775)	(4,921)
Transfers to Other Funds	(3,275)	(4,108)	(4,525)	(2,864)	(2,429)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$9,740</b>	<b>\$13,790</b>	<b>\$22,371</b>	<b>\$17,175</b>	<b>\$23,700</b>
<b>EXCESS (DEFICIENCY) OF REVENUES &amp; OTHER FIN. SOURCES OVER EXPS. &amp; OTHER FINANCING USES</b>	<b>(8,777)</b>	<b>(10,750)</b>	<b>1,449</b>	<b>(4,603)</b>	<b>(4,893)</b>
<b>FUND BALANCE AT JULY 1</b>	<b>56,344</b>	<b>47,567</b>	<b>36,817</b>	<b>38,766</b>	<b>34,844</b>
Residual Equity Transfers from Other Funds	-	-	500	681	1,063
<b>FUND BALANCE AT JUNE 30</b>	<b><u>\$47,567</u></b>	<b><u>\$36,817</u></b>	<b><u>\$38,766</u></b>	<b><u>\$34,844</u></b>	<b><u>\$31,014</u></b>

Source: City of San Diego, Comprehensive Annual Financial Report.

### Fiscal Year 1996 Budget

The Fiscal Year 1996 Budget was adopted on July 25, 1995. It reflects a forecast of moderate growth in several major revenue categories as the economic climate for San Diego and California began to improve during the second half of 1994.

The General Fund portion of the City's budget which provides services such as police and fire protection, trash collection, library service, parks and recreational programs and other essential services, totals \$489.5 million, which is a 1.1% increase from the Fiscal Year 1995 budget of \$484.0 million. This represents 42% of the total City budget of \$1.18 billion.

As in Fiscal Year 1995, there was some use of one-time revenue sources. One-time revenues are revenues derived from non-recurring sources, as opposed to permanent General Fund sources. Sources of one-time revenue include the repayment of loans and advances from other City funds and agencies and the transfer of surplus funds from internal service and other City funds, as permitted by the City Charter.

In the Fiscal Year 1996 budget, one-time revenues comprised less than 5% of the City's total General Fund budget. Though not a significant portion of the total budget, one-time revenues have been prudently utilized as a supplement to permanent General Fund revenue sources, lessening the severity of the impact of the recent recession on the City, and allowing the City to maintain and even increase the level of services provided while some of the major revenue sources experienced little to no growth.

The Fiscal Year 1996 Budget reflected priorities of public safety and service to the public, economic development, and park and street maintenance. To enhance the level of police service and expand neighborhood policing, \$1.1 million was budgeted to add 14 sworn officers and \$400,000 to fund a new area station in the City's Mid-City community. In order to provide for these enhancements, reductions and alternative revenue sources were identified in other areas of the budget.

As of June 1996, the City's actual revenues are at or above budgeted revenues and the expenditures will not exceed approved budgeted amounts for the Fiscal Year 1996.

#### **Fiscal Year 1997 Proposed Budget**

The Fiscal Year 1997 Proposed Budget was presented to the City Council in May, 1996. It is based on an assumption that most major revenue categories, including sales tax, transient occupancy tax, and motor vehicle license fees will continue to grow at rates comparable to those realized during Fiscal Year 1996. See "LIMITATIONS ON TAXES AND APPROPRIATIONS-Statutory Spending Limitations" below for factors affecting the availability of these revenues.

In the Fiscal Year 1997 Proposed Budget, one-time revenues again comprise less than 5% of the City's total General Fund budget. These one-time revenues include repayment of loans and advances from other City funds and agencies and the transfer of surplus funds from internal service and other City funds, as permitted by the City Charter.

The General Fund portion of the Proposed Budget totals \$504 million, up by 3.0% over the Fiscal Year 1996 budget. Public safety services, including police and fire, accounts for 54% of total proposed expenditures. The Proposed Budget includes the addition of 21 police officers, 7 fire engines and trucks and \$1.5 million to fund street and sidewalk improvements.

Revenue projections for Fiscal Year 1997 reflect the City's recovery from the recent recession. Increases are estimated for most major General Fund revenue categories for Fiscal Year 1997.

The following table sets forth the operating budgets for the City's General Fund, comparing actual results for Fiscal Year 1995 with the City's adopted budget for Fiscal Year 1996 and the proposed budget for Fiscal Year 1997.

**Table 14**  
**CITY OF SAN DIEGO**  
**OPERATING BUDGET SUMMARY FOR FISCAL YEARS 1995 THROUGH 1997**  
**GENERAL FUND**

REVENUE SOURCES	Actual Results Fiscal Year 1995	Adopted Budget Fiscal Year 1996	Proposed Budget Fiscal Year 1997
Property Tax	\$112,353,543	\$111,725,112	\$111,725,112
Sales Tax	92,676,991	94,309,920	101,638,173
Transient Occupancy Tax	29,584,395	31,132,294	33,933,247
Property Transfer Tax	2,201,861	2,300,000	2,300,000
Licenses and Permits	21,678,010	18,741,741	19,017,871
Fines, Forfeitures and Penalties	16,953,977	20,154,650	17,124,882
Interest Earnings	6,291,462	5,400,000	5,700,000
Franchises	24,261,544	23,268,547	22,662,597
Other Rents and Concessions	23,413,577	23,172,167	23,904,177
State Motor Vehicle License Fees	41,687,113	40,602,000	45,740,830
Other Revenue from Agencies	3,666,287	3,164,380	3,492,468
Charges for Current Services	30,401,888	31,567,635	33,128,662
Transfers from Other Funds	74,014,672	81,006,427	80,860,978
Other Revenue and Balance	4,527,355	2,968,146	2,815,030
<b>Total General Fund Revenues</b>	<b>\$483,712,675</b>	<b>\$489,513,019</b>	<b>\$504,044,027</b>
<b>EXPENDITURES</b>			
Public Safety	\$247,685,437	\$257,074,786	\$272,000,756
Parks and Recreation	43,059,363	47,106,236	41,606,934
Sanitation and Health	28,493,593	27,637,799	27,162,863
Other Public Services	90,693,895	87,625,742	90,011,512
Support Services	60,532,502	70,068,456	73,261,962
<b>Total General Fund Expenditures</b>	<b>\$470,464,790</b>	<b>\$489,513,019</b>	<b>\$504,044,027</b>

Source: City of San Diego.

### Property Taxes

The County assesses property and collects secured and unsecured property taxes to for the cities, school districts and special districts within the County, including the City. Once the property taxes are collected, the County conducts its internal reconciliation for accounting purposes and distributes such taxes to the City, generally within a couple of weeks. Prior to distribution, the moneys are deposited in an account established on behalf of the City in the County Treasurer's Investment Pool (the "Pool"). If the County and/or the Pool were at any time to become subject to bankruptcy proceedings, it is possible that City property taxes held in the Pool, if any, could be temporarily unavailable to the City. However, the City believes that such an occurrence would not impair its ability to pay the Notes in a timely manner. Ad valorem taxes are subject to constitutional limits as discussed under the section "Limitations on Taxes and Appropriations."

Taxes are levied for each fiscal year on taxable real and personal property which is situated in the City as of the preceding March 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured" and is listed accordingly on separate parts of the assessment roll. The "secured roll" is that part of the assessment roll containing the taxes on which there is a lien on real property sufficient, in the opinion of the County Assessor, to secure payment of the taxes. Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and February 1 of the fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10% penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is sold to the State on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquent penalty, plus a

redemption penalty of 1.5% per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is deeded to the State and then is subject to sale by the County Tax Collector.

Property taxes on the unsecured roll are due as of the March 1 lien date and become delinquent, if unpaid, on August 31 of the fiscal year. A 10% penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of 1.5% per month begins to accrue beginning November 1 of the fiscal year. The taxing authority has four ways of collecting unsecured personal property taxes: (a) a civil action against the taxpayer; (b) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (c) filing a certificate of delinquency for record in the County Recorder's office, in order to obtain a lien on certain property of the taxpayer; and (d) seizure and sale of personal property, improvements or possessory interest belonging or assessed to the assessee.

A supplemental assessment occurs upon a change of ownership of existing property and for new construction upon completion. A supplemental tax bill is issued for the difference in property value resulting from the increase in assessed value which is prorated for the remainder of the year.

Effective July 1, 1988, Assembly Bill 454, Chapter 921, eliminated the reporting of the unitary valuations pertaining to public utilities such as San Diego Gas and Electric and Pacific Telephone. In lieu of the property tax on these previously included assessed valuations, the City will receive from the State (through the County) an amount of unitary revenue based upon the unitary property tax received in the prior year.

The following table presents assessed valuation within the City for the past ten Fiscal Years.

Fiscal Year Ending June 30	Secured Property	Unsecured Property	Gross Total	Less Exemptions[3]	Net Assessed Valuations[4]	Ann. Assessed Change[5]
1987	\$37,330,349	\$2,012,161	\$39,342,510	\$1,028,573	\$38,313,937	13.33%
1988	41,256,462	2,510,496	43,766,958	1,197,058	42,569,900	11.11%
1989	43,175,133	2,923,626	46,098,759	1,257,738	44,841,021	5.34%
1990	48,203,351	3,345,666	51,549,017	1,492,849	50,056,168	11.63%
1991	53,756,806	3,885,132	57,641,938	1,676,063	55,965,875	11.81%
1992	57,563,431	3,946,532	61,509,963	1,792,948	59,717,015	6.70%
1993	59,787,900	4,059,854	63,847,754	1,099,768	61,747,986	3.40%
1994	60,586,129	4,218,892	64,805,021	2,360,741	62,444,280	1.13%
1995	60,939,995	4,371,923	65,311,918	2,420,027	62,891,891	0.72%
1996	61,793,760	4,303,198	66,096,958	2,489,507	63,607,451	1.14%

[1] Assessed valuations are based on 100% of full market value.  
[2] Includes both locally assessed and State assessed utility property.  
[3] Excludes homeowners' and business inventory exemptions.  
[4] Net assessed valuation for tax rate purposes. Includes both locally assessed and State assessed utility property.  
[5] As mentioned above, effective July 1, 1988, Assembly Bill 454, Chapter 921, eliminated the reporting of the unitary valuation pertaining to public utilities, making these percentages not comparable in 1988-89. Without such change, growth in net assessed valuations would have been approximately 11%.

Sources: City of San Diego Comprehensive Annual Financial Report for the year ended June 30, 1994, "(Revised) Statistical Section" (unaudited), pages 138 and 139. County Assessor's Office for Fiscal Years 1994 and 1995.

A number of factors have affected City property tax revenues. The most significant factor stems from the State's effort to reduce its obligation for school funding by shifting, over Fiscal Years 1993 and

1994, nearly \$4 billion of local property tax revenues from the cities to school districts. For the City of San Diego, this translated into an \$11.2 million permanent shift of City property tax revenues in Fiscal Year 1993 and an additional \$12.4 million permanent shift in Fiscal Year 1994. Recent clarifying legislation with regard to these shifts has resulted in another \$0.4 million permanent shift of City property tax revenues in Fiscal Year 1995.

Fiscal Year 1995 and Fiscal Year 1996 property tax revenues were affected by the significant number of assessment appeals which have been filed with the County Assessor's Office. These appeal filings are the result of a decline in property values from 1990 and 1991 levels. The City has established a \$2.8 million reserve to assist in the mitigation of the impact of assessment appeals on City revenues. This reserve remains intact and may be partially utilized in the current or future fiscal years.

The assessment appeal cases are reviewed, and if necessary, reduced under the auspices of Proposition 8. Proposition 8 allows for a temporary reduction in property tax assessments, if the market value falls below the assessed value. This is a temporary reduction in value which is then reviewed annually, and can be increased to the original assessed value (plus 2% CPI increase as required by Proposition 8) as market conditions improve. Because of Proposition 13, most properties in San Diego County have assessed values well below their current market values. Normally, only recently purchased properties that have subsequently declined in value are likely candidates for this temporary reduction. In Fiscal Years 1994 and 1995, the County of San Diego received 26,700 and 25,600 assessment appeal applications, respectively.

Despite the impact of assessment appeals, Fiscal Year 1996 property tax revenues are currently projected to exceed the final budgeted amounts by approximately \$2.5 million, or 2.2 percent.

## Tax Collections

Table 16 summarizes the City's secured tax collections over the past ten years.

<p align="center"><b>Table 16</b>  <b>SECURED TAX LEVIES AND COLLECTIONS</b>  <b>Fiscal Years 1986 through 1995</b>  <b>(In thousands)</b></p>					
<b>Fiscal Year Ending June 30</b>	<b>Tax Levy</b>	<b>Current Year Collections</b>	<b>Current Year Collections as % of Current Tax Levy</b>	<b>Total Tax Collections</b>	<b>Total Collections as % of Tax Levy [1]</b>
1986	\$70,088	\$66,448	94.81%	\$69,421	99.05%
1987	79,236	74,838	94.45%	78,110	98.58%
1988	92,545	87,032	94.04%	91,268	98.62%
1989	102,539	97,895	95.47%	101,852	99.33%
1990	115,361	109,990	95.34%	113,377	98.28%
1991	125,823	116,952	92.95%	120,510	95.78%
1992	127,143	121,308	95.41%	125,153	98.43%
1993	120,574	114,821	95.23%	119,867	99.41%
1994	109,881	105,911	96.39%	110,738	100.78%
1995	109,754	104,295	95.03%	108,192	98.58%

[1] Total collections include unpaid taxes from previous years' tax levies collected in the current fiscal year.

Source: City of San Diego Comprehensive Annual Financial Report for the year ended June 30, 1995, "Statistical Section" (unaudited), page 143.

Table 17 indicates the ten largest property taxpayers in the City.

**Table 17**  
**PRINCIPAL TAXPAYERS IN CITY OF SAN DIEGO**  
**June 30, 1995**  
**(in thousands)**

<u>Taxpayers</u>	<u>Type of Business</u>	<u>Assessed Valuation</u>	<u>% of Net Assessed Valuation[1]</u>	<u>Approximate Tax Paid</u>
Sony Corporation	Electronics	\$244,098	0.38%	\$2,488
Sea World	Entertainment	213,502	0.33%	2,338
General Dynamics/Convair	Aerospace	206,694	0.32%	2,311
Equitable Life Assurance Society	Investment	187,720	0.29%	2,106
Solar Turbines	Manufacturing	159,949	0.25%	1,787
Pacific Landmark Hotel	Hotel	154,790	0.24%	1,730
Hewlett-Packard Company	Electronics	140,665	0.22%	1,439
Manchester Ltd.	Hotel	119,439	0.19%	1,335
Sheraton-Harbor Drive	Hotel	108,633	0.17%	1,197
Kelco Corp. (Delaware)	Chemicals	107,120	0.17%	1,197
		<u>\$1,642,610</u>	<u>2.56%</u>	

[1] Total net assessed valuation of \$64,088,701,724.

Note: This table excludes public utilities, including San Diego Gas & Electric Company, Pacific Bell and AT&T, because valuations within the City of San Diego cannot be readily determined.

Source: County of San Diego Assessor's Office

## LIMITATIONS ON TAXES AND APPROPRIATIONS

### Article XIII A of the California Constitution

Section 1(a) of Article XIII A of the California Constitution limits the maximum ad valorem tax on real property to 1% of full cash value (as defined in Section 2 of Article XIII A), to be collected by each county and apportioned among the county and other public agencies and funds according to law. Section 1(b) of Article XIII A provides that the 1% limitation does not apply to ad valorem taxes to pay interest or redemption charges on (a) indebtedness approved by the voters prior to July 1, 1978 or (b) any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978, by two-thirds of the votes cast by the voters voting on the proposition. Section 2 of Article XIII A defines "full cash value" to mean "the County Assessor's valuation of real property as shown on the 1975/76 tax bill under 'full cash value' or, thereafter, the appraised value of real property when purchased, newly constructed or a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year or to reflect a reduction in the consumer price index or comparable data for the area under the taxing jurisdiction, or reduced in the event of declining property values caused by substantial damage, destruction or other factors. Legislation enacted by the State Legislature to implement Article XIII A provides that notwithstanding any other law, local agencies may not levy any ad valorem property tax except to pay debt service on indebtedness approved by the voters as described above.

In the June 1990 election, the voters of the State approved amendments to Article XIII A permitting the State Legislature to extend the replacement dwelling provisions applicable to persons over 55 to severely disabled homeowners for a replacement dwelling purchase or newly constructed on or after June 5, 1990, and to exclude from the definition of "new construction" triggering reassessment improvements to certain dwellings for the purpose of making the dwelling more accessible to severely disabled persons. In the November 1990 election, the voters of the State approved an amendment of Article XIII A to permit the State Legislature to exclude from the definition of "new construction" seismic retrofitting improvements or improvements utilizing earthquake hazard mitigation technologies constructed or installed in existing buildings after November 6, 1990.

## **Court Challenges to Article XIII A**

In early 1989, the United States Supreme Court struck down as a violation of equal protection certain property tax assessment practices in West Virginia which has resulted in vastly different assessments of similar properties. Since Article XIII A provides that property may only be reassessed up to 2% per year, except upon change of ownership or new construction, recent purchasers may pay substantially higher property taxes than long-time owners of comparable property in a community. The Supreme Court in the West Virginia case expressly declined to comment in any way on the constitutionality of Article XIII A. Based on this decision, however, property owners in California brought three suits challenging the acquisition value assessment provisions of Article XIII A. Two cases involved residential property, and one case involved commercial property. In all three cases, State trial and appellate courts upheld the constitutionality of Article XIII A's assessment rules and concluded that the West Virginia case did not apply to California's laws. On June 3, 1991 the United States Supreme Court agreed to hear the appeal in the challenge relating to commercial property, but the plaintiff subsequently decided to drop the case.

On June 18, 1992, the United States Supreme Court upheld the decision in *Nordlinger v. Hahn*, 225 Cal.App.3d 1259, one of the cases involving residential property decided by the State Court of Appeals. The 8 to 1 majority held that the Article XIII A assessment method serves a rational state interest by providing certainty regarding property taxes to homeowners and therefore does not violate provisions of the Equal Protection Clause codified in the 14th Amendment of the U.S. Constitution.

The City cannot predict whether future challenges to the State's present system of property tax assessment will be made, when the ultimate resolution of any challenge will occur or the ultimate effect any decision holding the State's present system of property tax assessment unconstitutional would have on the City's revenues. One possible outcome of a decision to invalidate Article XIII A would be a decrease in the amount of property tax revenues paid to the City.

## **Article XIII B of the California Constitution**

Article XIII B of the California Constitution limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted for changes in the cost of living, population and services for which the fiscal responsibility is shifted to or from the governmental entity. The "base year" for establishing this appropriations limit is the 1978-79 Fiscal Year and the limit is adjusted annually to reflect changes in population, consumer prices and certain increases or decreases in the cost of services provided by these public agencies.

Appropriations of an entity of local government subject to Article XIII B generally include any authorizations to expend during a fiscal year the proceeds of taxes levied by or for the entity, exclusive of certain State subventions, refunds of taxes and benefit payments from retirement, unemployment insurance and disability insurance funds. "Proceeds of taxes" include, but are not limited to, all tax revenues, most State subventions and the proceeds to the local government entity from (a) regulatory licenses, user charges, and user fees (to the extent that such proceeds exceed the cost reasonably borne by such entity) and (b) the investment of tax revenues. Article XIII B provides that if a governmental entity's revenues in any year exceed the amounts permitted to be spent, the excess must be returned by revising tax rates or fee schedules over the subsequent two years.

Article XIII B does not limit the appropriation of money to pay debt service on indebtedness existing or authorized as of January 1, 1979, or for bonded indebtedness approved thereafter by a vote of the electors of the issuing entity at an election held for that purpose.

In the June 1990 election, the voters of the State approved Proposition 111, which amended the method of calculating State and local appropriations limits. Proposition 111 made several changes to Article XIII B, three of which are reflected in the City's annual computation of its appropriation limit. First, the term "change in the cost of living" was redefined as the change in the California per capita personal

income ("CPCPI") from the preceding year. Previously the lower of the CPCPI or the United States Consumer Price Index was used. Second, the appropriations limit for the fiscal year was recomputed by adjusting the 1986-1987 limit by the CPCPI for the three subsequent years. Third, Proposition 111 excluded appropriation for "all qualified capital outlay projects, as defined by the Legislature" from the definition of "appropriations subject to limitation."

Article XIII B allows voters to approve a temporary waiver of a government's Article XIII B limit. Such a waiver is often referred to as a "Gann limit waiver." The length of any such waiver is limited to four years. In June 1990, San Diego voters approved a four year increase in the City's Article XIII B limit (for Fiscal Years 1992 through 1995). In the November 1994 election, San Diego voters approved another four year increase in the City's Article XIII B limit (for Fiscal Years 1996 through 1999). The Gann limit waiver does not provide any additional revenues to the City or allow the City to finance additional services. At the time of preparing the Fiscal Year 1995-96 Budget, the City calculated its appropriations limit at \$448,603,272. The proposed 1995-96 Fiscal Year Budget included appropriations of \$337,532,873 which were subject to the limit. The impact of the appropriations limit on the City's financial needs in the future is unknown.

Both Article XIII A and XIII B were adopted as measures that qualified for the ballot pursuant to California's constitutional initiative process. From time to time other initiative measures could be adopted, affecting the ability of the City to increase revenues and to increase appropriations.

### **Statutory Spending Limitations**

A statutory initiative ("Proposition 62") was adopted by the voters of the State at the November 4, 1986 General Election which (a) requires that any tax for general governmental purposes imposed by local governmental entities be approved by resolution or ordinance adopted by two-thirds vote of the governmental agency's legislative body and by a majority of the electorate of the governmental entity, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local governmental entity be approved by a two-thirds vote of the voters within the jurisdiction, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax is imposed, (d) prohibits the imposition of ad valorem taxes on real property by local governmental entities except as permitted by Article XIII A, (e) prohibits the imposition of transaction taxes and sales taxes of the sale of real property by local governmental entities and (f) requires that any tax imposed by a local governmental entity on or after March 1, 1985 be ratified by a majority vote of the electorate within two years of the adoption of the initiative or be terminated by November 15, 1988. The requirements imposed by Proposition 62 were recently upheld by the California Supreme Court in its ruling on *Santa Clara County Local Transportation Authority v. Guardino*.

The City believes that, notwithstanding the Guardino decision, the provisions of Prop 62 do not apply to charter cities. The extent of the application of the decision to taxes which were authorized prior to the date of the decision is also undecided. There is pending in the State Legislature, Senate Bill 1590 (O'Connell) which would add Section 53716 to the California Government Code and provide that the Guardino decision would not be applicable to or control any tax levied or increased by an ordinance or resolution adopted before December 14, 1995.

The City cannot predict the outcome of this or other legislation or of any future litigation addressing this or related issues. The City has effected certain tax increases after the enactment of Proposition 62 in 1986 and pursuant to such increases has collected approximately \$83,000,000. The City does not expect to increase existing taxes or impose new taxes prior to or during Fiscal Year 1997.

In the opinion of the City Attorney, the provisions of Proposition 62 do not apply to charter cities, although this position is being challenged by various groups, and may be the subject of future litigation. If ultimately found valid and applicable to charter cities, however, Proposition 62 could affect the ability of the City to continue the imposition of certain taxes, such as sales and transient occupancy taxes, and may further restrict the City's ability to raise revenue.



## **Rossi v. Brown**

On March 6, 1995 in the case *Rossi v. Brown*, the State Supreme Court held that an initiative can repeal a tax ordinance and prohibit the imposition of further such taxes and that the exemption from the referendum requirements does not apply to initiatives. The City does not expect the *Rossi v. Brown* decision to have a material adverse effect on any of the City's significant revenue sources.

## **Proposed Initiative**

On June 28, 1996, the California Secretary of State announced that an initiative to amend the California Constitution known as the Right to Vote on Taxes Act ("Jarvis III") was certified to appear on the November 5, 1996 ballot. Jarvis III requires the approval of a majority of voters in the State voting on the issue to become effective. If so approved by the voters, Jarvis III would require majority voter approval for the imposition, extension or increase of general taxes and 2/3 voter approval for the imposition, extension or increase of special taxes by a local government, which is defined in Jarvis III to include charter cities such as the City. Jarvis III would also provide that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995 and prior to November 6, 1996 shall continue to be imposed only if approved by a majority vote in an election held within two years of November 6, 1996. Finally, Jarvis III limits the application of assessments, fees and charges and requires them to be submitted to property owners for approval or rejection, after notice and public hearing.

The City has not imposed, extended or increased any general taxes since January 1, 1995. The City is unable to predict whether Jarvis III will be approved by the voters, or whether and to what extent Jarvis III may be held to be constitutional.

## **LABOR RELATIONS**

Most City employees are represented by one of four labor organizations: The American Federation of State and County Municipal Employees (Local 127), which represents approximately 2,200 employees; The Municipal Employees Association (the "MEA") and Unrepresented Employees, which total approximately 4,100 employees; The Police Officers Association (the "POA"), which represents approximately 1,900 employees; and the International Association of Firefighters (Local 145), which represents approximately 825 employees. Except for the POA, all other labor organizations have two year agreements that expire on June 30, 1997.

The POA received a 1% salary increase on December 31, 1994, and Local 145 received a 1% increase on March 25, 1995. The MEA represented employees, Local 127, as well as approximately 450 unclassified managerial and unrepresented employees, received a 1% increase on June 3, 1995. The MEA and Local 127 have reached an agreement with the City on consecutive 3% increases effective January 1, 1996 and January 1, 1997. Local 145 has negotiated consecutive 3% increases effective March 1, 1996 and December 30, 1996. Unable to reach an agreement with the POA, the City Council approved a 3% increase effective December 1995. The City and the POA reached agreement on a new contract that provides for a 3% increase effective July 1, 1996, a 2% increase effective July 1, 1997 and another 2% increase effective January 1, 1998.

## **PENSION PLAN**

All City full-time employees participate with the full-time employees of the San Diego Unified Port District in the City Employees' Retirement System ("CERS"). CERS is a multiple-employer public employee retirement system that acts as a common investment and administrative agent for the City and the District. Through various benefit plans, CERS provides retirement benefits to all general and safety (police and fire) members.

The CERS plans are structured as defined benefit plans in which benefits are based on salary, length of service and age. City employees are required to contribute a percentage of their annual salary to CERS. State legislation requires the City to contribute to CERS at rates determined by actuarial valuations.

The City's last annual valuation dated June 30, 1995 stated the funding ratio (Net Assets available for Benefits to Pension Benefit Obligation) of the CERS fund to be 86.8%. However, as there are some on-going meet and confer items being discussed, the Actuarial Report has not been ratified by the Retirement Board but is expected to be ratified in the near future. The CERS fund has an Unfunded Actuarial Accrued Liability (UAAL) of \$96.3 million as of June 30, 1995. The UAAL is the difference between total actuarial accrued liabilities of \$1.477 billion and assets allocated to funding of \$1.380 billion. The UAAL is amortized over a 30 year period which started July 1, 1991, with each year's amortization payment reflected as a portion of the percentage of payroll representing the employer's contribution rate. As of June 30, 1995, there were 26 years remaining in the amortization period.

## INSURANCE, CLAIMS AND LITIGATION

The City is self-insured for its public liability claims exposure and its workers' compensation, long-term disability and employee group health coverage. Workers' compensation, long-term disability, and employee group health coverage are accounted for in the Self Insurance Fund, which is one of the City's Internal Service Funds. For workers' compensation, disability and health coverage, each participating fund contributes an amount equal to an actuarial determined rate multiplied by the gross salaries payable from that fund. The Internal Service Funds have a net fund equity of approximately \$4,839,000 at June 30, 1995. This balance includes a fund equity deficit in the Self Insurance Fund of approximately \$19,745,000 which represents unfunded estimated claims and claim settlements related to workers' compensation, long-term disability and certain employee group coverages. It is anticipated that individual claim settlements will be funded through participating fund contributions subsequent to the filing of a claim and prior to its settlement.

The City also maintains within the Self Insurance Fund a reserve for public liability claims. The City participates in the joint purchase of insurance with a number of counties in the County Supervisors Association of California - Excess Insurance Authority ("CSAC-EIA"). This joint purchase of the City's "all risk" property insurance, insuring approximately \$750 million of City property, provides "occurrence form" coverage for any loss to City property up to \$200 million per loss, with a \$25,000 deductible. There is no sharing of the limits among the City and the member counties unless the loss is considered one occurrence for policy purposes.

Earthquake coverage is provided on the City Hall building and City "bond financed" locations only, in the amount of \$50 million. No other City structures share in this coverage and it is dedicated only to City Hall and such "bond financed" structures. This earthquake coverage of \$50 million is shared with the member counties in the CSAC-EIA pool, except for the County of San Diego which purchases its own earthquake insurance. Depending upon the availability and affordability of such earthquake insurance, the City may elect not to purchase such coverage in the future.

The City of San Diego is a public agency which is subject to liability for the negligent acts or omissions of its officers and employees acting within the scope of their duty. The City has a self-insured liability of \$3 million. For liability between \$3 to \$25 million, the City purchases commercial insurance in layers, for its public liability exposure. This exposure is governed per California Government Code Section 900 et seq. The City has incurred total annual claims payments as shown in Table 18.

**Table 18**  
**CITY OF SAN DIEGO**  
**ANNUAL CLAIMS AND INSURANCE**  
**PREMIUM PAYMENTS**  
**Fiscal Years 1991 through 1995**

<b>Year</b>	<b>Amount</b>
1991	\$16,345,235
1992	14,199,042
1993	9,891,182
1994	9,748,684
1995	10,612,520

Source: City of San Diego, Liability Division.

## INVESTMENT OF FUNDS

The Treasurer of the City of San Diego, in accordance with the Charter of the City of San Diego, is responsible for investing the unexpended cash in the Treasurer's pooled operating investment fund (the "Pool"). Responsibility for the daily investment of funds in the Pool is delegated to the City's Investment Officer. The City is the only participant in the Pool; there are no other Pool participants either voluntary or involuntary. The investment objectives of the Pool are preservation of capital, liquidity and return.

***Oversight and Reporting Requirements.*** The City Treasurer provides an investment report on a monthly basis to the City Manager, the City Auditor and Comptroller and the City Council and annually presents a statement of investment policy (the "Investment Guidelines") to the City Manager, the City Council and the City Manager's Investment Advisory Committee. The Investment Advisory Committee was established in March 1990 and is comprised of the City Auditor and Comptroller, the Financial and Technical Services Manager and one investment professional from the private sector. The Committee is charged with oversight responsibility to review on an on-going basis the investment policy and practices of the City Treasurer and recommend changes. Investments in the Pool are audited by an independent firm of certified public accountants as part of the overall audit of the City's financial statements.

The City's investment section utilizes outside services to provide investment portfolio valuations and accounting and reporting services. The service provides monthly portfolio valuation, investment performance statistics and other statistical security reports which are distributed to the City Treasurer accounting section and the City Auditor and Comptroller's office for review and reconciliation. The City Treasury accounting section prepares a series of monthly reports, which includes portfolio market valuation, and distributes these to the Mayor, City Council, City Manager and other officials.

***Authorized Investments.*** Investments in the Pool are governed by State law as well as the Investment Guidelines. Included among the Investment Guidelines is the power to write call options and put options on U.S. Treasury and U.S. Agency securities; also included is the power to purchase such call options and put options. A call option written by the Pool gives to a third party the right to purchase securities from the Pool at a specific price and a put option written by the Pool gives the right to a third party to tender securities for sale to the Pool at a specific price. Call options and put options which are purchased give the Pool the respective rights to acquire securities from, and sell securities to, a third party at a specific price. The Treasurer has adopted an internal guideline to the effect that the Pool will not write call options for securities which are not owned by the Pool. The maximum financial exposure for call options (the prices of the securities covered by call options) is \$40 million for calls being written by the Pool and \$40 million for calls being purchased by the Pool. The maximum exposure permitted for puts being written or purchased by the Pool is \$20 million for each.

In addition, the Investment Guidelines permit the Pool to engage in reverse repurchase transactions. These entail the sale of securities by the Pool at a specific price and the concurrent agreement to purchase the same back at a later date at a specific price. The Pool invests proceeds from the sale in other securities with maturities not later than the date on which the original securities must be repurchased. For this purpose, the City Treasurer treats securities with variable interest rates as having maturities equal to the time between interest reset dates. Effective January 1, 1996, California law was changed to limit the cumulative amount of reverse repurchase transactions to 20% of cash amounts in the Pool, exclusive of amounts received in reverse repurchase transactions. The Investment Guidelines reflect this change in law.

The Pool does not engage in securities lending transactions.

**Pool Liquidity and Other Characteristics.** The Pool is highly liquid. As of April 30, 1996, approximately 14% of the pool investments mature within 60 days, 20% within 90 days and 34% within 180 days (on a cumulative basis). As of April 30, 1996, the Pool had a weighted average maturity of 1.33 years (487 days) and its weighted yield was 6%. (For purposes of calculating weighted average maturity, the City Treasurer treats investments in the State-wide Local Agency Investment Fund as maturing within one day. Duration is a measure of the price volatility of the portfolio which reflects an estimate of the projected increase or decrease in the value of the portfolio based upon a decrease or increase in interest rates. The Pool has a duration of 1.3 years, which implies that for every 1% increase in market rates, the market value of the portfolio would decrease by approximately 1.3%.) The Pool composition is intended to provide sufficient liquidity to meet disbursement requirements. The composition and value of investments in the Pool will vary from time to time depending on the cash flow needs of the City and changes in interest rates. The Pool composition is designed to ensure that sufficient liquid funds are available to meet disbursement requirements. The composition and value of investments under management in the City's Investment Pool will vary from time to time depending on cash flow needs of the City, maturity or sale of investments, purchase of new securities and fluctuations in interest rates generally.

**Table 19**  
**CITY OF SAN DIEGO POOLED INVESTMENT FUND**  
at April 30, 1996  
(unaudited)

	<u>Book Value</u>	<u>Market Value</u>	<u>% of Total[1]</u>
U.S. Treasury Bills and Notes	\$521,374,066	\$522,597,187	52.5%
Federal Agency Securities	171,389,633	170,015,013	17.3%
Medium Term Notes (corp.)[2]	100,152,721	100,140,881	10.1%
Money Market Instruments [3]	191,638,437	191,662,876	19.3%
<u>Local Agency Investment Fund</u>	<u>8,432,313</u>	<u>8,432,313</u>	<u>0.8%</u>
Total Assets [4]	992,987,170	992,848,270	100.0%
<u>Less: Reverse Repo. Liabil. [5]</u>	<u>(54,108,000)</u>	<u>(54,108,000)</u>	
Net Assets	<u>\$938,879,170</u>	<u>\$938,740,270</u>	

[1] Based on Book Value.

[2] Interest rates are reset at intervals ranging from one day to three months.

[3] Commercial paper, negotiable certificates of deposit, term and overnight repurchase agreements, banker's acceptances, bank notes and thrift notes.

[4] Reflects the investment of proceeds received by the Pool upon the sale of securities in revenue repurchase transactions.

[5] The aggregate amount payable by the Pool upon the repurchase of securities sold by the Pool in reverse repurchase transactions.

**Derivatives.** As of April 30, 1996, the City's Investment Pool had less than 5% of its assets invested in structured notes or derivatives. The City Treasurer defines a derivative as a financial instrument whose value is derived from an underlying asset, price, index or rate, e.g. options, futures or interest rate swaps. A structured note is an investment instrument which can contain within its structure various combinations of derivatives such as imbedded calls and interest rate swaps that will offer

returns to an investor within a defined set of parameters and interest rate scenarios, e.g. step-ups, multiple-indexed notes, inverse floaters or leveraged constant maturity notes. The City Treasurer does not define fixed rate notes, debentures with call features or single index non-leveraged floating rate notes, e.g. monthly LIBOR plus or minus a spread, as structured notes. The City Treasurer limits structured notes eligible for purchase to those investments, which at the time of purchase, have no risk of principal loss if held to maturity and offer an estimated return at purchase sufficiently in excess of a comparable rate of return on a fixed term investment in the judgment of the City's Investment Officer. The City Treasurer does not permit the purchase of securities that have a negative amortization of principal. In addition, recently enacted California law prohibits the purchase of inverse floaters, range notes or interest only strips that are derived from pools of mortgages.

*Reverse Repurchase Agreements.* As of April 30, 1996, reverse repurchase agreements (or "reverse repos") represented approximately \$54 million or 6% of assets in the Pool. The Investment Guidelines require that all proceeds of a reverse repo be reinvested in securities whose maturity date or coupon reset date match the maturity on the reverse. The Investment Guidelines limit the use of reverse repurchase agreements to 20% of the assets of the Pool. The City's reverse repo program is monitored daily and reported monthly.

## **BONDED AND OTHER INDEBTEDNESS**

### **General**

The City has never failed to pay principal of or interest on any debt or lease obligation when due. (However, see discussion on Special Assessment District under "Overlapping Debt and Debt Ratios" section.) In addition, the City has issued bonds or entered into installment purchase contracts secured by and payable out of loans and installment sale contracts, in order to provide conduit financing for single and multi-family housing, industrial development, and 501(c)(3) non-profit corporations. These bonds and certificates of participation are not secured by City general funds or revenues.

### **Long-Term Obligations**

As of June 30, 1995, the City had \$91,970,000 aggregate principal amount of long-term general obligation bonded indebtedness outstanding and \$141,490,000 aggregate principal amount of long-term general fund lease obligations outstanding. The City has never defaulted on bonded indebtedness for which it was the real obligor or on lease payment obligations incurred. The following table is a schedule, by years, of payments required by the City and its oversight entities with respect to future obligations, as of June 30, 1995.

**Table 20**  
**CITY OF SAN DIEGO**  
**LONG-TERM OBLIGATIONS**  
**Fiscal Year Ended June 30, 1995**  
**(in thousands)**

Year Ending June 30	General Obligation Bonds	General Fund Commitments	Enterprise Fund Commitments	Total
1996	\$8,208	\$16,514	\$16,318	\$41,040
1997	11,603	17,125	16,320	45,048
1998	8,800	15,878	16,317	40,995
1999	8,911	13,652	16,317	38,880
2000	9,894	12,045	16,322	38,261
Thereafter	<u>93,021</u>	<u>143,908</u>	<u>375,334</u>	<u>612,263</u>
Subtotal	140,437	219,122	456,928	816,487
Less Interest	<u>(48,467)</u>	<u>(77,632)</u>	<u>(214,143)</u>	<u>(340,242)</u>
Total	<u>\$91,970</u>	<u>\$141,490</u>	<u>\$242,785</u>	<u>\$476,245</u>

	Principal Outstanding
<u>General Obligation Bonds</u>	
1979-Open Space Park Facility District Refunding	\$500
1986-Open Space Park Facility District Refunding	3,400
1994-Open Space Park Facility District Refunding	64,260
1991 Public Safety Communications	<u>23,810</u>
Total General Obligation Bonds	\$91,970

<u>General Fund Commitments</u>	
<u>Certificates of Participations</u>	
1991-Balboa Park/Mission Bay Park Capital Improvements	\$11,400
1993-Balboa Park/Mission Bay Park Capital Improvements	27,250
1991-Misdemeanor Pre-arraignment Detention Facility	6,600
<u>Lease Revenue Bonds</u>	
1971-Planetarium Authority-Space Theatre and Science Cen	455
1989-City/MTDB Authority for Bayside Trolley Extension	5,240
1993-City/MTDB Authority for Old Town Trolley Extension	18,640
1994-City/MTDB Authority Refunding-Police CIP and Bayside	65,685
1994-Stadium Authority Refunding	<u>6,220</u>
Total General Fund Commitments	\$141,490

<u>Enterprise Fund Commitments</u>	
<u>Revenue Bonds</u>	
1993-Public Facilities Fin. Auth.-Sewer System Upgrades	<u>\$242,785</u>
Total Enterprise Fund Commitments	\$242,785

Source: City of San Diego, Comprehensive Annual Financial Report.

### Prior-Years' Defeasance of Debt

In prior years, the City, the Redevelopment Agency of the City of San Diego, the Open Space Park Facilities District No. 1, and the San Diego Stadium Authority defeased certain general obligation and other bonds by placing the proceeds of the refunding bonds in an irrevocable trust to provide for all future debt service payments on the old bonds, through the applicable redemption dates or maturity. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. As of June 30, 1995, \$155,380,000 of defeased bonds, including those defeased in prior years, are still outstanding.

### Short-Term Borrowings

The City has issued tax anticipation notes since the mid-1960's (except for Fiscal Year 1978-79) to cure periodic General Fund cash flow deficits. As a result of a tax law change that allowed funding of a working capital advance, the amount issued in Fiscal Years 1993 and 1994 increased substantially over prior years. The table below presents a 10-year history of the City's temporary borrowings.

**Table 21**  
**CITY OF SAN DIEGO**  
**SHORT-TERM BORROWINGS**  
**Fiscal Years Ended June 30, 1988 through 1997**

<b>Fiscal Year</b> <b><u>Ending June 30</u></b>	<b><u>Amount</u></b>
1988	\$5,000,000
1989	28,000,000
1990	40,000,000
1991	49,000,000
1992	57,000,000
1993	102,000,000
1994	100,500,000
1995	68,000,000
1996	53,000,000
1997	73,500,000

Source: City of San Diego

### Lease Obligations

The City has entered into various lease arrangements under which the City must make annual payments to occupy public buildings necessary for City operations. The table below is a schedule by years of future minimum rental payments required under such leases entered into by the City that have initial or remaining noncancellable lease terms in excess of one year, as of June 30, 1995.

**Table 22**  
**CITY OF SAN DIEGO**  
**FUTURE MINIMUM RENTAL PAYMENTS**  
**GENERAL FUND OBLIGATIONS**

<b>Fiscal Year</b> <b><u>Ending June 30</u></b>	<b><u>Amount</u></b>
1996	\$5,077,000
1997	4,979,000
1998	4,854,000
1999	4,852,000
2000	4,781,000
Thereafter	15,212,000
<b>Total minimum payments</b>	<b><u>\$39,755,000</u></b>

Source: City of San Diego, Comprehensive Annual Financial Report and City Real Estate Assets Department.

### Recent Financings

The Public Facilities Financing Authority of the City of San Diego issued \$350,000,000 of Sewer Revenue Bonds, Series 1995, in December 1995 to finance the City's Wastewater Capital Improvements Program. Since June 30, 1996, the City of San Diego issued \$73,500,000 of Tax Anticipation Notes (1996-97) to finance seasonal cash flow requirements of the City of San Diego during the Fiscal Year 1997.

### Prospective Financings

In Fiscal Year 1997, the City has issued or intends to issue or cause the execution and delivery of the following: (i) \$33,430,000 of Certificates of Participation (Balboa Park and Mission Bay Capital Improvements Program) Series 1996A, (ii) \$11,720,000 of Refunding Certificates of Participation (Balboa Park and Mission Bay Capital Improvements Program, Series 1991) Series 1996B,

(iii) approximately \$60,000,000 of Lease Revenue Bonds to fund improvements to the San Diego Jack Murphy Stadium, (iv) up to \$205,000,000 of Lease Revenue Bonds to fund the expansion of the San Diego Convention Center, (v) approximately \$40,000,000 of Lease Revenue Bonds to fund the construction of a new main library in downtown San Diego and (vi) up to \$250,000,000 of Sewer Revenue Bonds to finance the City's Wastewater Capital Improvements Program. The issues described in clauses (iii) and (iv) above are subject to resolution to the City's satisfaction of pending litigation involving the City's authority to issue the obligations.

#### **Overlapping Debt and Debt Ratios**

The City contains numerous school districts and special purpose districts, such as for water and sanitation, many of which have issued general obligation bonds. A statement of overlapping debt is presented below. Some of the issues may be payable from self-supporting enterprises or revenue sources other than property taxation. Revenue bonds, tax allocation bonds and special assessment bonds are not included in the tabulation; lease revenue obligations payable from the City General Fund or equivalent sources are included.

From time to time, the City issues special assessment district bonds on behalf of developers. These bonds are secured by property owner assessments. The City issued \$24.1 million in improvement bonds on July 9, 1987 for Assessment District No. 4007, also known as the First San Diego River Improvement Project. The proceeds were used to finance flood control improvements near the San Diego Jack Murphy Stadium. On March 2, 1995, due to the delinquency of several parcels responsible for nearly 50% of the debt service, sufficient monies were not available to make the debt service payment. Even though the City was not obligated to make debt service payments, the City took proactive measures to protect the Assessment District bond holders. Due to the steps taken by the City to mitigate the impact to holders, all current delinquencies were cured for the First San Diego River Improvement Project Bonds on September 2, 1995. Approximately \$10 million of such bonds remain outstanding and there are currently no delinquent assessments in Assessment District No. 4007.

The table below presents a statement of direct and overlapping bonded debt of the City as of June 30, 1996.



**CITY OF SAN DIEGO  
STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT  
as of June 30, 1996**

1995-96 Assessed Valuation: \$63,605,439,042 (after deducting \$1,747,670,842 redevelopment incremental valuation)

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</u>	<u>% Applicable</u>	<u>Debt 6/30/96</u>
San Diego County Water Authority	49.118	\$5,569,982
Metropolitan Water District	7.922	47,919,782
Escondido and San Pasqual Union School Districts	.004-7.593	6,774
San Diego Unified School District Lease Tax Obligations	99.889	360,199,734
City of San Diego	100	22,980,000
City of San Diego 1915 Act Bonds	100	81,195,000
San Diego Open Space Park Facilities District No. 1	100	66,110,000
San Diego Community Facilities District No. 1	100	54,435,000
Palomar Pomerado Hospital District	34.086	289,731
Olivenhain Municipal Water District, I.D. No. 3	1.257	691
Olivenhain Municipal Water District, I.D. No. 4	17.621	22,907
Otay Municipal Water District, I.D. No. 7	89.659	67,244
North City West School District Community Facilities District	100	45,600,000
Poway Unified School District Community Facilities District No. 1	100	7,430,000
<b>TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$691,826,845</b>
Less: San Diego Open Space Park and Facilities District No. 1 (100% self-supporting)		(66,110,000)
<b>TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>		<b>\$625,716,845</b>

<u>DIRECT AND OVERLAPPING LEASE OBLIGATION DEBT</u>		
San Diego County General Fund Obligations	47.278	\$211,962,876
San Diego County Pension Obligations	47.278	203,498,695
San Diego Community College District General Fund Obligations	99.889	20,137,622
Poway Unified School District Certificates of Participation	78.130	2,689,489
San Diego Unified School District General Fund Obligations	99.889	56,057,707
San Dieguito Union High School District Certificates of Participation	23.111	2,933,941
South Bay Union School District Certificates of Participation	61.939	4,084,877
Other School, High School and Community College District COPs	various	6,108,590
City of San Diego Stadium Authority	100	11,985,000
City of San Diego Planetarium Authority	100	235,000
City of San Diego Certificates of Participation and MTDB Authority	100	128,680,000
Otay Municipal Water District Certificates of Participation	6.917	974,605
<b>TOTAL GROSS OVERLAPPING LEASE OBLIGATION DEBT</b>		<b>\$649,348,402</b>
Less: City of San Diego Stadium Authority (100% self-supporting)		(11,985,000)
Less: City of San Diego Planetarium Authority (100% self-supporting)		(235,000)
Less: Otay Municipal Water District Certificates of Participation		(974,605)
Less: Grossmont Union High School District (100% self-supporting from tax increment)		(67,762)
<b>TOTAL NET OVERLAPPING LEASE OBLIGATION DEBT</b>		<b>\$636,086,035</b>
<b>GROSS COMBINED TOTAL DEBT [1]</b>		<b>\$1,341,175,247</b>
<b>NET COMBINED TOTAL DEBT</b>		<b>\$1,261,802,880</b>

[1] Excl. tax & rev. anticipation notes, rev., mortgage rev. & tax allocation bonds & non-bonded capital lease oblig.

Ratios to Assessed Valuation

Direct Debt (\$22,980,000):	.04%
Gross Combined Direct Debt (\$229,990,000)[2]:	.36%
Net Combined Direct Debt (\$151,660,000):	.24%
Tot. Gross Dir. & Overlapping Tax & Assmt. Debt:	1.09%
Tot. Net Dir. & Overlapping Tax & Assmt. Debt:	.98%
Gross Combined Total Debt:	2.11%
Net Combined Total Debt:	1.98%

[2] City:	\$22,980,000
City Authorities and Certificates of Participation:	140,900,000
San Diego Open Space Park Facilities District No. 1:	66,110,000
	\$229,990,000

SHARE OF AUTHORIZED AND UNSOLD GENERAL OBLIGATION BONDS

Metropolitan Water District:	\$3,961,000
Chula Vista School District:	\$60,810
Del Mar Union School District:	\$68,093
Santee School District:	\$1,207
Penasquitos Sewer District:	\$5,500,000

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/95: \$10,270,179

Source: California Municipal Statistics, Inc.



## APPENDIX B

### BOOK-ENTRY-ONLY SYSTEM

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY-ONLY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE CITY BELIEVES TO BE RELIABLE, BUT THE CITY TAKES NO RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS THEREOF. THE BENEFICIAL OWNERS (AS HEREINAFTER DEFINED) SHOULD CONFIRM THE FOLLOWING INFORMATION WITH DTC OR THE DTC PARTICIPANTS.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate will be issued for each maturity of each series of the Certificates in the aggregate principal amount of such maturity, and will be deposited with DTC. If, however, the aggregate principal amount of any series exceeds \$150 million, one certificate will be issued with respect to each \$150 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to other such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). Direct and Indirect Participants may be jointly referred to herein as "Participants." The Rules applicable to DTC and Participants are on file with the Securities and Exchange Commission.

Purchases of the Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Certificates with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the Certificates within a series are being redeemed, DTC's practice is to determine by lot the amount of interest of each Direct Participant in such series to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Certificates. Under its usual procedures, DTC mails an omnibus proxy (the "Omnibus Proxy") to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Certificates will be made to DTC. DTC's practice is to credit Direct Participants' accounts on the payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payable date. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Certificates held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Certificates at any time by giving reasonable notice to the City. Under such circumstances, in the event that a successor securities depository is not obtained, certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, certificates will be printed and delivered.

So long as Cede & Co. is the registered owner of the Certificates, as nominee of DTC, references herein to the owners, holders or holders of the Certificates (other than under the caption "Tax Exemption" in the Official Statement to which this Appendix is attached) shall mean Cede & Co. and shall not mean the beneficial owners of the Certificates.

THE CITY WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, OR TO ANY BENEFICIAL OWNER WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT, (ii) THE DELIVERY OF ANY NOTICE THAT IS PERMITTED OR REQUIRED TO BE GIVEN TO THE OWNERS OF THE CERTIFICATES UNDER THE DECLARATION OF TRUST; (iii) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT WITH RESPECT TO THE PRINCIPAL OR INTEREST DUE WITH RESPECT TO THE CERTIFICATES; (iv) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE OWNER OF CERTIFICATES; OR (v) ANY OTHER MATTER.

THE CITY, AS LONG AS A BOOK-ENTRY-ONLY SYSTEM IS USED FOR THE CERTIFICATES, WILL SEND ANY NOTICES ONLY TO DTC. ANY FAILURE OF DTC TO ADVISE ANY DTC PARTICIPANT, OR OF ANY DTC PARTICIPANT TO NOTIFY ANY BENEFICIAL OWNER OF ANY NOTICE AND ITS CONTENT OR EFFECT, WILL NOT AFFECT THE VALIDITY OR SUFFICIENCY OF THE PROCEEDINGS RELATING TO ANY ACTION PREMISED ON SUCH NOTICE.

## **APPENDIX C**

### **SUMMARY OF PRINCIPAL LEGAL DOCUMENTS**

The following is a summary of certain provisions of the Trust Agreement, the Facilities Lease, the Site and Facilities Lease and the Assignment Agreement. This summary does not purport to be a complete statement of said terms and provisions and prospective purchases of the Certificates are referred to the complete texts of said documents, copies of which are available upon from the office of the Trustee.

### **DEFINITIONS**

"Additional Rent" shall mean any amount payable by the City under the terms of the Facilities Lease, other than a Lease Payment.

"Assignment Agreement" shall mean that certain Assignment Agreement, dated as of August 1, 1996, by and between the Corporation and the Trustee, pursuant to which the Corporation assigns certain rights to the Trustee for the benefit of the Owners of the Certificates as originally executed or as it is from time to time supplemented, modified or amended.

"Business Day" means a day other than (i) a Saturday or Sunday or (ii) a day on which commercial banks in the city in which the Trustee maintains its Corporate Trust Office are authorized or required by law or executive order to close or (iii) a day on which the New York Stock Exchange is closed.

"City" shall mean the City of San Diego, California.

"Code" means the Internal Revenue Code of 1986, and the regulations issued thereunder, as the same may be amended from time to time, and any successor provisions of law. Reference to a particular section of the Code shall be deemed to be a reference to any successor to any such section.

"Corporation" shall mean the San Diego Facilities and Equipment Leasing Corporation.

"Cost" shall mean with respect to each component of the Project, and whether incurred prior to or after the date of the Facilities Lease, all costs of acquisition, design, construction, installation, placing in use or operation or financing or refinancing of such component of the Project, including, but not limited to, (i) administrative costs and capital expenditures relating to acquisition, construction, installation, placing in use or operation or financing, inspection costs, filing and recording costs, printing costs, reproduction and binding costs, fees and charges of the Trustee and its Counsel pursuant to the Trust Agreement, costs of financing documents, legal fees and charges, financial, accounting and other professional consultant fees, costs of rating agencies or credit ratings, required payments to the Rebate Fund and fees for the printing, execution, transportation and safekeeping of the Certificates; (ii) all other costs which the City or the Corporation shall be required to pay under the terms of any contract or contracts for the acquisition, construction, installation, placing in use or operation or financing of such component of the Project, including, but not limited to the cost of insurance; (iii) such other expenses not specified herein as may be necessary for or incidental to any of the foregoing; and (iv) any sums required to reimburse the City or the Corporation for advances made for any of the above items. Cost as defined herein shall also include the cost and expenses incurred by any agent of the City or the Corporation on any of the above items.

"Escrow Agreement" means that certain Escrow Agreement, dated as of August 1, 1996, between the City and First Trust of California, National Association, as escrow agent thereunder.

"Event of Default" means any of the events of default under the Lease.

"Facilities" shall mean the real property constituting the Site, and the improvements thereon, which have been leased to the Corporation pursuant to the Site and Facilities Lease and that are to be leased by the Corporation back to the City as provided herein.

"Facilities Lease" means the Facilities Lease, dated as of August 1, 1996, between the City and the Corporation, as originally executed or as it is from time to time supplemented, modified or amended.

"Fiscal Year" shall mean the twelve month fiscal period of the City which commences on July 1 in every year and ends on June 30 of the succeeding year.

"Force Majeure" means (i) acts of God, (ii) strikes, boycotts or like obstructive actions by employee or labor organizations, (iii) war, hostilities or declarations of a state and/or national emergency, or (iv) orders or restraints of any kind imposed by government action or authority which have not been brought about as the result of legislation or litigation initiated by any political party.

"Government Obligations" means any of the following which are noncallable by the issuer thereof and which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested therein:

(i) direct general obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America;

(ii) bonds, debentures or notes issued by any of the following Federal Agencies: Bank for Cooperatives, Federal Land Banks, Federal Financing Bank, or Federal National Mortgage Association (including Participation Certificates);

(iii) Public Housing Bonds, Temporary Notes or Preliminary Loan Notes, fully secured by contracts with the United States of America; and

(iv) bonds, debentures or notes issued by any Federal agency hereafter created by an act of Congress, the payment of the principal of and interest on which are unconditionally guaranteed by the United States of America.

"Information Services" shall mean Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services, "Called Bond Service," 65 Broadway, 16th Floor, New York, New York 10006; Moody's Municipal and Government, 99 Church Street, 8th Floor, New York, New York 10007, Attention: Municipal News Reports; and Standard & Poor's "Called Bond Record," 25 Broadway, 3rd Floor, New York, New York 10004; or to such other addresses and/or such other services providing information with respect to called bonds as the City may designate.

"Insurance Proceeds" shall mean any insurance or condemnation proceeds paid with respect to the Facilities, remaining after payment therefrom of all expenses incurred in the collection thereof; and, with respect to insurance, if and at such time as the City elects to provide self-insurance under the Facilities Lease, any moneys payable from any self-insurance fund of the City.

"Interest Component" shall mean any Lease Payment, or portion thereof, which is designated and paid as interest pursuant to the terms of the Facilities Lease; the Interest Component of a Certificate is the proportionate interest in the Interest Component of the Lease Payments which is evidenced and represented by such Certificate.

"Interest Component Payment Date" shall mean November 1 and May 1 of each year beginning November 1, 1996 and ending on the maturity date of the Certificates.

"Interest Period" shall mean each six-month period ending on October 30 and April 30 of each year.

**"Lease Payments"** shall mean all payments made by the City to the Corporation under the Facilities Lease, excluding Additional Rent.

**"Lease Payment Account"** shall mean the Lease Payment Account established pursuant to the Trust Agreement.

**"Lease Payment Dates"** shall mean the dates on which the Lease Payments are required to be made as provided in the Facilities Lease.

**"1991 Certificates"** means the Certificates of Participation (Balboa Park and Mission Bay Park Improvements Program) Series 1991, executed and delivered pursuant to the 1991 Trust Agreement.

**"1991 Facilities Lease"** means the Facilities Lease, dated as of July 15, 1991, by and between the City and the Corporation.

**"1991 Project"** means the capital improvements acquired, constructed and installed with proceeds of the 1991 Certificates.

**"1991 Reserve Account"** means the Reserve Account established pursuant to the 1991 Trust Agreement.

**"1991 Site Lease"** means the Site and Facilities Lease, dated as of July 15, 1991, by and between the Corporation and the City.

**"1991 Trust Agreement"** means the Trust Agreement, dated as of July 15, 1991, by and among the City, the Corporation and First Trust of California, National Association (as successor in interest to Bank of America National Trust and Savings Association), as trustee.

**"1991 Trustee"** means First Trust of California, National Association (as successor in interest to Bank of America National Trust and Savings Association), as trustee under the 1991 Trust Agreement for the benefit of the 1991 Certificate Owners.

**"Outstanding,"** when used with reference to Certificates, shall mean, as of any date, Certificates theretofore or thereupon prepared, executed and delivered under the Trust Agreement except:

- (a) Certificates cancelled by the Trustee or delivered to the Trustee for cancellation at or prior to such date;
- (b) Certificates (or portions of Certificates) deemed paid pursuant to provisions of the Trust Agreement; and
- (c) Certificates in lieu of or in substitution for which other Certificates shall have been prepared, executed and delivered pursuant to Article III of the Trust.

**"Permitted Investments"** means, as to any funds held by the Trustee, any of the following to the extent then permitted by the general laws of the State of California applicable to investments by cities:

- (1) United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest;
- (2) Obligations issued by banks for cooperatives, federal land banks, federal intermediate credit banks, federal home loan banks, the Federal Farm Credit Bank, the Federal Home Loan Bank Board or the Tennessee Valley Authority, or obligations, participations or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association, or guaranteed portions of Small Business Administration

notes, or obligations, participations, or other instruments of or issued by, or fully guaranteed as to principal and interest by, the Federal National Mortgage Association;

(3) Time certificates of deposit or negotiable certificates of deposit or time or demand deposits issued by a state or nationally chartered bank, including the Trustee and its affiliates, or a state or national savings and loan association, provided that such certificates of deposit or deposits shall be (i) continuously and fully insured by the Federal Deposit Insurance Corporation or (ii) issued by any bank, including the Trustee and its affiliates or trust company organized or licensed under the laws of any state of the United States, or any California banking corporation (including the Trustee), which is rated, or the long-term indebtedness of which is rated, within the two highest rating categories by S&P and Moody's;

(4) Repurchase agreements collateralized by any one or more of the securities described in clauses (1) and (2) with any registered broker/dealer subject to the Securities Investors' Protection Corporation jurisdiction and recognized as a primary dealer by the Federal Reserve Bank of New York if such broker/dealer or bank or the holding company or other controlling corporation of such broker/dealer or bank has an uninsured, unsecured and unguaranteed obligation rated "Prime 1" or "Aa" by Moody's and "A-1+" or "AA" or better by S&P's, provided:

(a) a master repurchase agreement or specific written repurchase agreement governs the transaction; and

(b) the securities are held by the Trustee or an independent third party acting solely as agent for the Trustee free and clear of any lien, and (i) such third party is (A) a Federal Reserve Bank, or (B) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$25 million, and (ii) the Trustee shall have received written confirmation from such third party that it holds such securities, free of any lien, as agent for the Trustee; and

(c) a perfected first security interest under the Uniform Commercial Code, or book entry procedures prescribed at 31 C.F.R. 306.1 *et seq.* or 31 C.F.R. 350.0 *et seq.* in such securities is created for the benefit of the Trustee;

(d) the repurchase agreement has a term of thirty (30) days or less, or the Trustee will value the collateral securities no less frequently than weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within two Business Days of such valuation;

(e) the fair market value of the securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 102%;

(f) the maximum maturity of the collateral securities is limited to seven years; and

(g) such repurchase agreements shall not have as collateral securities structured notes or notes with zero coupon or notes that contain negative amortization.

(5) Bonds, notes, warrants or other evidence of indebtedness of the State of California or of any political subdivision or public agency thereof which are rated in the highest short-term or the two highest long-term rating categories by Moody's and S&P;

(6) Investments in taxable government money market portfolios, including those of the Trustee and its affiliates, restricted to obligations maturing in one year or less issued or guaranteed as to payment of principal and interest by the full faith and credit of the United States of America and rated in the two highest long-term categories by S&P and Moody's;



(7) Any investment agreement with any bank, trust company or primary dealer having a combined capital and surplus of at least \$500,000,000 rated in the two highest long-term categories with notice to S&P and Moody's; and

(8) Investments in the State of California Local Agency Investment Fund or the City of San Diego Pooled Bond Investment Fund or Pooled Operating Investment Fund, to the extent permitted by law and approved in writing by S&P and Moody's.

"Permitted Encumbrances" shall mean, with respect to the Facilities, as of any particular time, (i) to the extent in effect on the Delivery Date, the existing interests of the City to the related site, (ii) the Site and Facilities Lease, (iii) the Facilities Lease, (iv) the Trustee's and the Corporation's interests in the Facilities, (v) any right or claim of any mechanic, laborer, materialman, supplier or vendor filed or perfected in the manner prescribed by law, (vi) liens for taxes and assessments not then delinquent, (vii) utility, access and other easements and rights of way, restrictions and exceptions existing on the Delivery Date that an Authorized City Representative certifies will not interfere with or impair the use intended to be made of the Facilities and as to the existence of which the original purchaser of the Certificates consents in writing, (viii) covenants, conditions or restrictions or liens of record relating to the Facilities and existing on the Delivery Date, and (ix) such minor defects, irregularities, encumbrances and clouds on title as normally exist with respect to property similar in character to the Facilities and as do not materially impair the use intended to be made of property affected thereby as exist on the Delivery Date.

"Principal Component" shall mean with respect to a Lease Payment, the portion thereof which is designated and paid as principal pursuant to the terms of the Facilities Lease; the Principal Component of a Certificate is the proportionate interest in the Principal Component of the Lease Payments which is evidenced by such Certificate.

"Principal Component Payment Date" shall mean November 1 of each year (beginning November 1, 1996 and ending on the maturity date of the Certificates).

"Rating Agency" shall mean Moody's or S&P and their successors and assigns. If either such corporation ceases to act as securities rating agency, the City may appoint any nationally recognized securities rating agency as a replacement.

"Rebate Fund" shall mean the Rebate Fund created pursuant to the Trust Agreement.

"Reserve Account" shall mean the Reserve Account created pursuant to the Trust Agreement.

"Reserve Requirement" means the least of (i) an amount equal to the maximum amount of Lease Payments due on the fifth Business Day preceding any November 1 and the next preceding May 1 with respect to Outstanding Certificates and Additional Certificates, (ii) an amount equal to 10% of the proceeds (within the meaning of Section 148 of the Code) of all Certificates and Additional Certificates then Outstanding, or (iii) an amount equal to 125% of the average annual Lease Payments due with respect to Outstanding Certificates and Additional Certificates.

"Reserve Rent" shall mean, with respect to the Facilities, the amount, if any, by which the fair market rental of the Facilities for any period exceeds the amount of the Lease Payment for such period.

"Securities Depositories" means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 227-4039 or 4190; Midwest Securities Trust Company, Capital Structures - Call Notification, 440 South LaSalle Street, Chicago, Illinois 60605, Fax-(312) 663-2343; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Dex-(215) 496-5058; or to such other addresses and/or such other securities depositories as the City may designate.

"Site and Facilities Lease" shall mean the Site and Facilities Lease, dated as of August 1, 1996, by and between the City and the Corporation, as originally executed or as it is from time to time supplemented, modified or amended.

"Site" means the parcels of land described in Exhibit A of the Site and Facilities Lease.

"Tax Certificate" means the certificate by that name to be executed by the City on a Delivery Date to establish certain facts and expectations and which contains certain covenants relevant to compliance with the Code.

"Trust Agreement" shall mean the Trust Agreement, dated as of August 1, 1996, among the City, BNY Western Trust Company, as Trustee, and the Corporation, as originally executed and entered into and as it is from time to time supplemented, modified or amended.

"Trust Estate" means all estate, right, title and interest of the Trustee in and to the Lease Payments to be made by the City to the Corporation pursuant to the Facilities Lease and all rights to enforce the Lease Payments under the Facilities Lease, including, without limitation all amounts from time to time deposited in the funds, accounts and subaccounts created pursuant to the Trust Agreement and, subject to provisions of the Trust Agreement, investment earnings thereon.

## **THE FACILITIES LEASE**

**Lease of Facilities.** The Corporation leases to the City and the City leases from the Corporation, the Facilities on the terms and conditions set forth in the Facilities Lease. All leasehold rights granted to the City by the Corporation under the Facilities Lease will vest in the City without any further action on the part of the Corporation. The City acknowledges and accepts the assignment by the Corporation of its rights to the Lease Payments to the Trustee under the Trust Agreement.

**Term.** The term of the Facilities Lease will begin on August 15, 1996, or the date the Facilities Lease is recorded, whichever is later, and will terminate on November 1, 2021 or upon the earliest of any of the following events: (i) the occurrence of an Event of Default under the Facilities Lease; (ii) the payment by the City of all remaining Lease Payments and all other amounts owed under the Facilities Lease and the retirement of all Certificates; or (iii) all Certificates have been paid or deemed paid in accordance with the Trust Agreement. The City shall have the right to occupy and use the Facilities during the term of the Facilities Lease.

**The City's Liability.** The City assumes liability for all risks of loss during the acquisition, construction and installation of each item of the Project.

**Possession and Enjoyment.** During the term of the Facilities Lease the City will peaceably and quietly have and hold and enjoy the Facilities, without suit, interference or hindrance from the Corporation, except as expressly set forth in the Facilities Lease.

**Additions and Improvements.** The City will have the right to make any additions or improvements to the Facilities, to attach fixtures, structures or signs, and to affix any personal property to the improvements on the property, provided the use of the Facilities for the purposes contemplated in the Facilities Lease is not materially impaired and that the fair market rental value of the Facilities so affected will not be materially reduced. The City or its designee will have the right in its discretion and without the approval of the Corporation to acquire, construct, install and provide for the financing of additional improvements and facilities with respect to the Facilities. In the event the City at any time during the term of the Facilities Lease cause any improvements to the Facilities to be constructed or materials to be supplied in or upon or attached to the Facilities, the City will pay or cause to be paid when due all sums of money that may become due or purporting to be due for any labor, services, materials, supplies or equipment furnished or alleged to have been furnished to or for the City in, upon, about or relating to the Facilities and will keep the Facilities free of any and all liens against the Facilities. In the event any such lien attaches to or is filed against the Facilities, the City will cause each such lien to be fully discharged and released at the time the performance of any obligation secured by any such lien matures or becomes due, except that if the City desires to contest any such lien it may do so. If any such lien is reduced to final judgment and such judgment or any process as may be issued for the enforcement thereof is not promptly stayed, or if so stayed and such stay thereafter expires, the City will forthwith pay and discharge or cause to be paid and discharged such judgment. The

City, to the maximum extent permitted by law, will indemnify and hold the Corporation and its members, officers and employees harmless from, and defend each of them against, any claim, demand, loss, damage, liability or expense (including attorneys' fees) as a result of any such lien or claim of lien against the Facilities.

**Substitution of Property.** Under the Facilities the City will have the option at any time to substitute other land, facilities and improvements (a "Substitute Property") for any property described in the Site and Facilities Lease or any portion thereof (a "Former Property"), provided that the City satisfies certain conditions precedent to such substitution:

The City files with the Corporation and the Trustee and cause to be recorded an amended Exhibit A to the Site and Facilities Lease which adds thereto a description of such Substitute Property and deletes therefrom the description of such Former Property in the form of the Supplement attached to the Facilities Lease; (b) The City certifies in writing to the Corporation and the Trustee that the estimated fair market value, according to an independent MAI appraisal performed by an appraiser reasonably acceptable to the City and not objected to by the Trustee, of such Substitute Property are at least equal to the principal amount of the Certificates then Outstanding; (c) The City certifies in writing to the Corporation and the Trustee that such Substitute Property serves the public purposes of the City and constitutes property which the City is permitted to lease under the laws of the State of California and the Charter of the City; (d) the City certifies in writing to the Corporation and the Trustee that the estimated useful life of such Substitute Property at least extends to the date on which the final Lease Payment becomes due and payable; (e) such Substitution does not cause the City to violate any of its covenants, representations and warranties made herein or in the Trust Agreement; and (f) the City gives written notice to the Rating Agencies upon such Substitution.

From and after the date on which all of the foregoing conditions precedent to such substitution are satisfied, the term of the Facilities Lease will cease with respect to the Former Property and be continued with respect to the Substitute Property, and all references to the Former Property will apply with full force and effect to the Substitute Property. The City will not be entitled to any reduction, diminution, extension or other modification of the Lease Payments whatsoever as a result of such substitution.

**Payment of Lease Payments, Reserve Rent, Fees and Expenses and Additional Rent.**

**Lease Payments.** The City will pay Lease Payments, for the use and occupancy of the Facilities, and the continued quiet use and occupancy of the Facilities, in the respective amounts shown in the Facilities Lease, in lawful money of the United States of America, to the Corporation on the Lease Payment Dates on the terms and conditions herein provided. Lease Payments are composed of Interest Components and Principal Components. Interest Components are computed on the basis of a 360-day year of twelve 30-day months.

**Payment Dates.** Lease Payments, which shall be denominated into Principal Components and Interest Components, shall become due and payable on or before the fifth Business Day preceding each Principal Component Payment Date or Interest Component Payment Date, as the case may be.

**Reserve Rent.** If (i) Lease Payments have been abated pursuant, and (ii) funds have been withdrawn from the Reserve Account in order to pay Interest Components or Principal Components, and (iii) Lease Payments have been resumed and the amount of such Lease Payments is, according to an independent MAI appraisal performed by an appraiser reasonably acceptable to the City and not objected to by the Trustee and in a form reasonably acceptable to the City and not objected to by the Trustee, less than the fair market rental of the Facilities, and (iv) the amount on deposit in the Reserve Account is less than the Reserve Requirement, then the City shall pay Reserve Rent on each Lease Payment Date until the amount on deposit in the Reserve Account equals the Reserve Requirement.

**Additional Rent.** The City will pay, as Additional Rent, the fees and expenses of the Trustee as provided in the Trust Agreement. In addition to Additional Rent, the City shall make all other payments designated under the Facilities Lease as Additional Rent at the times and in the amounts specified hereunder.

**Timely Payment.** The City agrees to deposit, or cause to be deposited, such amounts as are required under the Facilities Lease with the Trustee in order to assure that sufficient moneys will be available to the Trustee to make timely distribution thereof to the Owners in accordance with the Trust Agreement. In the event the City should fail to make any of the payments required in, the payment in default shall continue as an obligation of the City until the amount in default shall have been fully paid, and the City agrees to pay the same together with (as Additional Rent) interest thereon, to the extent permitted by law, from the date of default to the date of payment at the rate applicable to the Interest Components of Lease Payments of the respective Certificate. Any amount held in the Lease Payment Account on a Lease Payment Date (other than amounts resulting from prepayment of Lease Payments, amounts required for payment of Principal Components or Interest Components represented by any Certificates not presented for payment and Advance Lease Payments) will be credited toward the Lease Payment when due and payable. Advance Lease Payments shall be credited toward Lease Payments as provided in the Trust Agreement.

**Prepayment of Lease Payments.** Lease Payments are subject to prepayment as provided in the Facilities Lease. All prepayments of Lease Payments will be made in funds immediately available on the Prepayment Date.

(a) **Optional Prepayment.** The City has the option to prepay Principal Components of remaining Lease Payments attributable to either Site in whole or in part from time to time, in the principal amount of \$5,000, or any integral multiple thereof, on any Lease Payment Date on or after November 1, 2004, by paying the Prepayment Price with respect thereto together with a premium, if any (expressed as a percentage of the total Principal Components prepaid), and the related Interest Components due on the date fixed for such prepayment. The premium upon prepayment has be the same as the premium for prepayment of Certificates as set forth in the Trust Agreement. The City will give the Trustee notice of its intention to exercise its option to prepay not more than ninety (90) and not less than sixty (60) days in advance of the date of such prepayment.

(b) **Extraordinary Optional Prepayment.** The City has the option to prepay the Principal Component of remaining Lease Payments in whole, without premium, on any Lease Payment Date if the Facilities are damaged, destroyed or condemned and the City elects to prepay Lease Payments pursuant to "Option B" provided in the Facilities Lease.

(c) **Effect of Prepayment.** In the event that the City prepays Lease Payments in whole, the amount paid will be applied to the prepayment in full of the Lease Payments in accordance with the Trust Agreement. In the event that the City prepays the Lease Payments in part but not in whole, such prepayment will be applied to the prepayment of the Lease Payments as follows: (i) the Principal Component of each remaining Lease Payment will be reduced on a pro rata basis in integral multiples of \$5,000; and (ii) the Interest Component of each remaining Lease Payment will be reduced by the aggregate corresponding amount of interest which would otherwise be payable with respect to the Certificates thereby prepaid pursuant to the Trust Agreement.

**Lease Payments to be Unconditional.** Subject to the Facilities Lease, the obligations of the City to make Lease Payments and to pay Additional Rent as provided for in the Facilities Lease and to perform its obligations under the Facilities Lease, are absolute and unconditional, and such Lease Payments and other amounts are payable without any rights of set-off, recoupment or counterclaim the City might have against any contractor, manufacturer or supplier of any item of the Facilities, the Corporation, the Trustee or any other person. The Facilities Lease will be deemed and construed to be a "net-net-net lease."

The Corporation and the City intend that the obligation of the City to pay Lease Payments under the Facilities Lease and to pay Additional Rent under the Facilities Lease will not in any way be construed to be a debt of the City, or the State of California, or any political subdivision thereof, in contravention of any applicable constitutional or statutory limitation or requirement concerning the creation of indebtedness by the City, the State of California, or any political subdivision thereof, nor will anything contained in the Facilities Lease constitute a pledge of general revenues, funds or moneys of the City (other than moneys held by the Trustee) or an obligation of the City for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

Consideration and Provision for Lease Payments. The Lease Payments to be made hereunder with respect to the Facilities shall be paid by the City for and in consideration of the City's use and occupancy of the Facilities, and the continued quiet use and enjoyment of the Facilities. Unless the Facilities Lease has been terminated as provided in of the Facilities Lease, the City covenants to take such action as may be necessary to include and maintain the applicable Lease Payments and other payments due hereunder in its budget for the appropriate Fiscal Year or pursuant to separate resolution and further shall make the necessary appropriations for all such Lease Payments and other payments required herein. The City will furnish to the Trustee copies of the budget or such other evidence of the City taking formal action with respect to the appropriation of money to pay Lease Payments and other payments hereunder within sixty (60) days after final adoption thereof. The covenants on the part of the City contained under the Facilities Lease are deemed to be ministerial duties imposed by law and it will be the ministerial duty of each and every public official of the City to take such action and do such things as are required by law in the performance of such official duty of such officials to enable the City to carry out and perform the covenants and agreements in the Facilities Lease agreed to be carried out and performed by the City.

The City has agreed and determined that the Lease Payments, payments of Additional Rent and other payments to be made under the Facilities Lease do not exceed the fair rental value of the Facilities.

Abatement of Lease Payments and Additional Rent.

Except to the extent that proceeds of the type described in the following paragraph are available, the amount of Lease Payments and Additional Rent will be abated during any period in which by reason of damage, destruction or taking by eminent domain or condemnation of the Facilities or defects in the title with respect to the Facilities there is substantial interference with the use and possession of all or a portion of the Facilities by the City. The amount of such abatement will be such that the resulting Lease Payments, exclusive of the amounts described in the following paragraph, do not exceed the fair rental value (as determined by an independent real estate appraiser selected by the City, who is not an employee of the City) for the use and possession of the portion of the Facilities not damaged, destroyed, interfered with or taken. Such abatement will continue for the period commencing with such damage, destruction, interference or taking and ending with the substantial completion of the replacement or work of repair or the removal of the title defect causing such interference with use. Except as provided in the Facilities Lease, in the event of any such damage, destruction, interference or taking, the Lease continue in full force and effect and the City waives any right to terminate the Lease by virtue of any such damage, destruction, interference or taking.

Notwithstanding a substantial interference with the use and possession of all or a portion of the Facilities, the City will remain obligated to make Lease Payments (i) in an amount not to exceed the fair rental value during each Fiscal Year for the portion of the Facilities not damaged, destroyed, interfered with or taken, as determined by an independent real estate appraiser selected by the City (who is not an employee of the City); or (ii) to the extent that moneys derived from any person as a result of any delay in the reconstruction, replacement or repair of the Facilities, or any portion thereof, are available to pay the amount which would otherwise be abated; or (iii) to the extent that moneys are available in the 1996 Trust Fund to pay the amount which would otherwise be abated, in which event the Lease Payments will be payable from such amounts as a special obligation of the City.

Maintenance of Facilities by the City. The City agrees that at all times during the term hereof, the City will, at the City's own cost and expense, maintain, preserve and keep the Facilities and every portion thereof in good repair, working order and condition, and that the City will from time to time make or cause to be made all necessary and proper repairs, replacements and renewals thereto. The City will at its own expense, provide or cause to be provided all security service, custodial service, power, gas, telephone, light, heating and water, and all other public utility services for the Facilities during the term of the Facilities Lease. The Corporation has no responsibility in any of these matters, or for the making of improvements or additions to the Facilities during the term of the Facilities Lease.

Taxes, Other Governmental Charges and Utility Charges. The City will pay, as the same respectively come due, all taxes and governmental charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Facilities, as well as all utility and other charges incurred in the operation, maintenance,

use, occupancy and upkeep of the Facilities; provided that, with respect to any governmental charges that may lawfully be paid in installments over a period of years, the City will be obligated to pay only such installments as have accrued during the time the Facilities Lease is in effect.

**Provisions Regarding Insurance.** At the Delivery Date, the City shall provide, or cause to be provided, title insurance under one or more policies in the form of California Land Title Association leasehold policy of title insurance. Such policy will insure the leasehold interest of the Corporation to the premises described in the Facilities Lease, subject only to Permitted Encumbrances and will be in an amount not less than the aggregate Principal Components of the Certificates. Said title insurance policy shall be issued by a title insurance company licensed to do business in California and shall not be maintained in the form of self-insurance.

The City will maintain or cause to be maintained the following policies of insurance throughout the term of the Facilities Lease for the Facilities (which may constitute blanket policies insuring City owned property generally (including the Facilities but not specifically identifying the Facilities):

(i) insurance against loss or damage to the Facilities resulting from fire, lightning, vandalism, malicious mischief and such perils ordinarily defined as "extended coverage" and such other perils as the Corporation and the City may agree should be insured against if such insurance is available from reputable insurers. Such insurance will be maintained for the Facilities in an amount not less than the full insurable value of the Facilities (subject to a "deductible clause" in an amount not exceeding One Hundred Thousand Dollars (\$100,000) for any one loss). The term "full insurable value" as used in the Facilities Lease will mean the actual replacement costs "new";

(ii) use and occupancy or business interruption or rental income insurance against the perils of fire, lightning, vandalism, malicious mischief, earthquake and such other perils ordinarily covered under an "extended coverage" policy in an amount sufficient to pay the total Lease Payments attributable to such portion of the Facilities for the period necessary to rebuild it, but not less than such period provided in the Facilities Lease;

(iii) public liability insurance against claims for bodily injury or death, or damage to property occurring upon, in or about the Facilities, such insurance to afford protection to a limit of not less than \$5,000,000 combined single limit bodily injury and property damage with such deductible provisions as the City provides on like coverage but not to exceed 20% of this face amount;

(iv) worker's compensation insurance issued by a responsible carrier authorized under the laws of the State of California to insure employers against liability for compensation under the Worker's Compensation Insurance and Safety Act now in force in California, or any act hereafter enacted as an amendment or supplement thereto or in lieu thereof, such worker's compensation insurance to cover all persons employed in connection with the Facilities and to cover full liability for compensation under any such act aforesaid, based upon death or bodily injury claims made by, for or on behalf of any person incurring or suffering injury or death during on in connection with the Facilities or the business of the City.

All insurance provided for in the Facilities Lease shall be effected under policies issued by insurers of recognized responsibility, licensed or admitted to do business in the State of California. All policies or certificates, other than the worker's compensation policy, shall name the Corporation and the Trustee as copayees under the fire and extended coverage policy and as additional insureds under the liability policy.

All policies or certificates issued by the respective insurers for insurance shall provide that such policies or certificates shall not be cancelled or materially changed without at least 30 days' prior written notice to the Trustee. Any Insurance Proceeds received by the Trustee pursuant to the Facilities Lease shall be deposited to the Lease Payment Account and applied to Lease Payments.

All premiums and charges due and payable for all of the aforesaid insurance will be paid by the City. Any such premium for a period partly within such period shall be prorated.

The City shall not be required to maintain or cause to be maintained any additional insurance, other than the insurance required in the Facilities Lease, unless the same is insurance which is available from reputable insurers on the open market. The phrase "insurance which is available from reputable insurers on the open market" means standard policies of insurance with standard deductibles offered by reputable insurers in a competitive market.

In lieu of obtaining the insurance required in the Facilities Lease, the City may demonstrate to the satisfaction of the Corporation that adequate self-insurance is provided with respect to the same risks of loss of the Facilities as are covered by the insurance above specified sufficient to each case to replace the Facilities or, if more, to pay all of the Outstanding Certificates allocable to the Facilities and to protect the Corporation from liability. If the insurance required under the Facilities Lease is not available, the City will self-insure with respect thereto. If the City maintains a program of self-insurance for similar properties, the City may, with the consent of the Corporation, elect to insure any or all of the Facilities in its self-insurance program and provide an adequate insurance fund to pay losses. In the event the City elects to provide self-insurance pursuant to the Facilities Lease, the City will on the date on which the City elects to self-insure, and annually, on or about July 1 thereafter, cause the Risk Manager of the City to deliver to the Corporation and the Trustee a certificate certifying to the existence of self-insurance meeting the requirements described in the Facilities Lease; provided however that in the event the City continues to provide the insurance for the risks described under the Trust Agreement the City not be required to file such information.

**Damage or Destruction, Condemnation and Title Defects.** (a) If the Facilities or any portion of the Facilities is destroyed or is damaged by fire or other casualty, or title to, or the temporary use of, the Facilities or any portion of the Facilities in whole or in part is taken under the exercise of the power of eminent domain, the City within 60 days after such damage, destruction or condemnation elect one of the following two options by written notice of such election to the Corporation and the Trustee:

(b) **Option A - Repair, Restoration or Replacement.** The City and the Corporation will cause the net proceeds of any insurance claim or condemnation award, other than business interruption insurance proceeds, to be applied to the prompt repair, restoration, or replacement of the Facilities (in which case the replacement of the Facilities will become subject to the provisions of the Facilities Lease as fully as if it were part of the original Facilities) and any balance of the net proceeds remaining after such work has been completed shall be paid to the City. Any repair, restoration or replacement of the Facilities will be such as to return the Facilities substantially to the condition it was in prior to being damaged or destroyed. The City shall deposit or cause to be deposited with the Trustee the net proceeds of any insurance claim or condemnation proceeds in the Construction Account (to be established by the Trustee) of the Trust Agreement in accordance with its terms.

(c) **Option B - Prepayment of Lease Payments.** The City and the Corporation will cause the Insurance Proceeds of any insurance claim or condemnation award to be applied to the prepayment of all unpaid Principal Components of the Lease Payments applicable to the Facilities. The City shall deposit or cause to be deposited with the Trustee such Insurance Proceeds in the Lease Payment Account of the Trust Agreement in accordance with its terms.

(b) If the Facilities are affected by a title defect, all proceeds received with respect to such defect under the title insurance policy shall be paid to the Trustee for deposit in the Lease Payment Account and application and disbursement as set forth below:

(a) If the City determines that such title defect has not materially affected the operation of the Facilities or the ability of the City to meet any of its obligations under the Facilities Lease (as set forth in a certificate executed by an Authorized City Representative and filed with the Trustee), and if such proceeds are in an amount less than an amount which would be sufficient to prepay all unpaid Principal Components of the Lease Payments applicable to the Facilities on the next succeeding Interest Component Payment Date, such proceeds shall be applied as a credit against Lease Payments when and as due.

(b) If the City determines that such title defect has materially affected the operation of the Facilities or the ability of the City to meet any of its obligations hereunder (as set forth in a certificate executed by an Authorized City Representative and filed with the Trustee), or if such proceeds are sufficient to enable the City to prepay all unpaid Principal Components of the Lease Payments applicable to the Facilities on the next succeeding Interest Component Payment Date, such proceeds will be applied to the prepayment of unpaid Principal Components of the Lease Payments applicable to the Facilities.

Insufficiency of Insurance Proceeds. (a) If the City elects to repair, restore or replace the Facilities under the terms of the Facilities Lease hereof and the Insurance Proceeds therefor are insufficient to pay in full the Cost of such repair, restoration or replacement, the City shall complete the work and pay, from any legally available funds, any cost in excess of the amount of the Insurance Proceeds, and the City agrees that, if by reason of any such insufficiency of the Insurance Proceeds the City shall make any payments pursuant to the provisions of the paragraph, the City shall not be entitled to any reimbursement therefor from the Corporation nor shall the City be entitled to any diminution of the amounts payable under the Facilities Lease.

(b) If the City elects to prepay Lease Payments as provided in the Facilities Lease, and the Insurance Proceeds therefor are less than the amount necessary to prepay all remaining Lease Payments with respect to the Facilities, the City shall pay, from any legally available funds, to the Corporation on the next occurring Lease Payment Date the additional amount required to prepay such remaining Lease Payments with respect to the Facilities. The City shall deposit or cause to be deposited with the Trustee such Insurance Proceeds in the Lease Payment Account of the Trust Agreement in accordance with its terms.

Liens. Except as provided herein, the City will not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, lien, charge, encumbrance or claim on or with respect to the Facilities, other than Permitted Encumbrances. The City will reimburse the Corporation for any expense incurred by the Corporation in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrances or claim.

Events of Default Defined. Each of the following will be an "Event of Default" under the Facilities Lease and the term "Event of Default" will mean, whenever it is used in the Facilities Lease, any one or more of the following events:

(a) Failure by the City to pay in full any Lease Payment or other payment required to be paid hereunder at the time and in the manner specified in the Facilities Lease; or

(b) The commencement of (i) voluntary proceedings in bankruptcy by, or the insolvency of, the City; or (ii) involuntary proceedings in bankruptcy against the City, which involuntary proceedings are not dismissed within 90 days after the commencement thereof; or

(c) Failure by the City to observe and perform in any material respect any covenant, condition or agreement on its part to be observed or performed under the Facilities Lease or the Trust Agreement, other than as referred to in (a) or (b) above, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied is given to the City by the Trustee, unless the Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, that if the City proceeds to take curative action which, if begun and prosecuted with due diligence, cannot be completed within such a period of thirty (30) days, then such period will be increased without such written extension to such extent as is necessary to enable the City to diligently complete such curative action.

If by reason of *force majeure* the City is unable in whole or in part to carry out the agreements on its part herein contained, other than the obligations on the part of the City contained in Article III hereof, an Event of Default shall not be deemed to have occurred during the continuance of such inability.



THERE SHALL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE LEASE PAYMENTS OR OTHERWISE DECLARE ANY LEASE PAYMENTS NOT DUE OR PAST DUE TO BE IMMEDIATELY DUE AND PAYABLE.

**Remedies on Default.** Whenever an Event of Default referred to under the Facilities Lease has happened and be continuing, the Corporation will have the right, without any further demand or notice, to take the following remedial steps:

- (a) terminate the Facilities Lease and pursue any remedy for monetary damages available with respect thereto pursuant to any provision of law; or
- (b) elect not to terminate the Facilities Lease, and, so long as the Corporation does not terminate the City's right to possession of a portion of the Facilities, enforce its rights hereunder to recover Lease Payments with respect to such Facilities as they become due pursuant to any provision of law.

Notwithstanding the remedies provided in paragraphs (a) and (b) above, in the event of a default under the Facilities Lease (other than as a result of a violation of a covenant set forth therein), there shall not be a termination of the Facilities Lease for a period of 180 days following notice to the City that the Corporation or the Trustee intends to terminate the Facilities Lease. Until the date of any termination, in the event there is any default hereunder, the City will retain any option to prepay in whole or in part the Principal Components of all remaining Lease Payments as provided in the Facilities Lease together with a premium, if any, as long as the City is in possession of the Facilities.

**No Remedy Exclusive.** No remedy conferred upon or reserved to the Corporation is intended to be exclusive and every such remedy is cumulative and shall be in addition to every other remedy given under the Facilities Lease or now or hereafter existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient.

## **THE TRUST AGREEMENT**

### **Establishment and Administration of Funds and Accounts**

The Trustee will establish a special trust fund for the Certificates, which special trust fund will be designated as the "Balboa Park and Mission Bay Park Capital Improvements Program Trust Fund" and referred to herein as the "Facilities Trust Fund" or the "1996 Trust Fund." The Trustee will keep the Facilities Trust Fund separate and apart from all other funds and moneys held by it. Within the Facilities Trust Fund, there will be established the following accounts: the Lease Payment Account, the Reserve Account and the Cost of Issuance Account.

**Lease Payment Account.** (a) The Trustee will deposit in the Lease Payment Account the following:

- (a) on the Delivery Date, an amount representing accrued interest received from such sale, to be applied, together with investment income thereon, to the payment of a portion of the Interest Component of the Lease Payment with respect to the Facilities on November 1, 1996;
- (b) Lease Payments made by the City on or prior to the appropriate Lease Payment Date pursuant to the Facilities Lease;
- (c) promptly upon its receipt thereof, Insurance Proceeds, as received from time to time, in the event all or a portion of the Facilities are damaged, destroyed or condemned and the City elects to prepay Lease Payments applicable to such Facilities pursuant to "Option B" provided in the Facilities Lease;

(d) promptly upon its receipt thereof, title insurance proceeds, as received from time to time, in the event of the defect in title with respect to the Facilities which are to be used to prepay Lease Payments applicable to the Facilities Lease pursuant to its terms;

(e) promptly upon its receipt thereof, title insurance proceeds, as received from time to time, in the event of a defect in title with respect to the Facilities which are to be applied as a credit against Lease Payments when and as due pursuant to the Facilities Lease;

(f) from time to time, moneys transferred from the Reserve Account;

(g) promptly upon its receipt thereof, Insurance Proceeds as received from time to time pursuant to a use and occupancy or business interruption or rental income insurance policy required to be maintained pursuant to the Facilities Lease;

(h) amounts delivered to the Trustee by the City for the payment of the premium portion of the Prepayment Price to be paid pursuant to the Trust Agreement; and

(i) all other moneys received by the Trustee under and pursuant to the provisions of the Facilities Lease which are required to be or which are accompanied by directions that such moneys are to be paid into the Lease Payment Account.

(b) The Trustee is required withdraw moneys from the Lease Payment Account at such times and in such amounts as are necessary to make payments of Principal Components, Interest Components or Prepayment Price.

(c) If, on the day after any Lease Payment Date, (i) all Principal Components, premium and Interest Components which became due and payable on or before such date have been paid in full, and (ii) there are moneys on deposit in the Lease Payment Account, other than that required for prepayment of Certificates, and (iii) the amount on deposit in the Reserve Account is less than the Reserve Requirement, then the Trustee shall transfer from the Lease Payment Account to the Reserve Account the lesser of (i) an amount which, when added to the amount on deposit in the Reserve Account, will equal the Reserve Requirement, or (ii) all amounts on deposit in the Lease Payment Account; provided, however, that no such transfer of moneys derived from insurance or condemnation proceeds shall be made.

(d) If, on the day after any Lease Payment Date, (i) all transfers have been made pursuant to (b) and (c) above, and (ii) there are moneys on deposit in the Lease Payment Account other than that required for prepayment of Certificates, then the Trustee shall (i) at the request of the City, transfer such funds to the City or (ii) apply such funds to reduce the next succeeding Lease Payment payable by the City; provided, however, that no such transfer or application of moneys derived from insurance or condemnation proceeds shall be made.

(e) If any moneys remain in the Lease Payment Account after (i) the Interest Components, premium (if any) and Principal Components with respect to all Outstanding Certificates have been paid and (ii) the Trustee has been paid all fees and expenses incurred in connection with its duties under the Trust Agreement, then the Trustee shall pay such remaining moneys to the City.

**Reserve Account.** (a) The Trustee is required to deposit in the Reserve Account the following:

(a) on the Delivery Date, from the proceeds of the sale of the Certificates, an amount equal to the Reserve Requirement;

(b) from time to time, any Lease Payment, or portion thereof, made after the appropriate Lease Payment Date in an amount equal to the amount transferred from the Reserve Account to the Lease Payment Account on such Lease Payment Date pursuant to the Trust Agreement;

(c) from time to time, any Reserve Rent payable pursuant to the terms of the Facilities Lease;  
and

(d) from time to time, moneys transferred from the Lease Payment Account pursuant to the Trust Agreement;

(b) If, on any Lease Payment Date, the amount available in the Lease Payment Account is less than the amount necessary to pay the Principal Component or the Interest Component with respect to any Certificate, then the Trustee shall transfer from the Reserve Account to the Lease Payment Account an amount sufficient to enable the Trustee to pay the Principal Component and Interest Component with respect to such Certificate from the Lease Payment Account. In the event of such transfer, the Trustee will, within 5 days after making such transfer, provide written notice to the City and the Corporation of the amount and date of such transfer.

(c) The Trustee will, on each Lease Payment Date, transfer to the Rebate Fund moneys in the Reserve Account in excess of the Reserve Requirement as directed by an Authorized City Representative, and in the absence of such direction to the Lease Payment Account, to the extent that such moneys constitute investment income earned since the immediately preceding Lease Payment Date.

(d) The Reserve Requirement, or any portion thereof, may be satisfied by crediting to the Reserve Fund moneys, a letter of credit, a bond insurance policy, or any other comparable credit facility or any combination thereof, which in the aggregate make funds available in the Reserve Fund in an amount equal to the Reserve Requirement; however, the long-term unsecured debt or claim-paying ability, as the case may be, of the provider of any such letter of credit, bond insurance policy or any other comparable credit facility, must have a rating of at least "A1" from Moody's, if Moody's is then rating the Certificates, and "A+" from S&P, if S&P is then rating the Certificates (provided that the Trustee shall be under no obligation and have no responsibility whatsoever to independently determine or verify such rating other than at the time of delivery); provided however that if the City determines to substitute a letter of credit, a bond insurance policy, or any other credit facility, for cash otherwise deposited in the Reserve Account, then the City may utilize moneys in the Reserve Account for any lawful purpose. In such event, the City will direct the Trustee to pay such amount to the City on its written order.

Cost of Issuance Account. (a) On the Delivery Date the Trustee shall deposit in the Cost of Issuance Account from the proceeds of the sale of the Certificates, an amount equal to the Costs of Issuance in the Cost of Issuance Account; and

(b) Costs of Issuance shall be paid from amounts on deposit in the Cost of Issuance Account. The Trustee shall make such payments in the amounts, at the times, in the manner, and on the other terms and conditions set forth herein. No such payment shall be made until the Trustee shall have received a requisition signed by an Authorized City Representative stating with respect to each payment to be made: (1) the requisition number, (2) the name and address of the person, firm, corporation or agency to which payment is due or has been made, (3) the amount to be paid, (4) identification of the item to which such payment is to be applied and (5) that each obligation mentioned therein is a proper charge against the Cost of Issuance Account and has not been the basis of any previous withdrawal.

All moneys received by the City pursuant to an Advance Requisition shall be held by the City until expended for Cost of the Project in a special segregated account to be known as the "Balboa Park/Mission Bay Park CIP Advance Requisition Account" (the "Advance Requisition Account").

Deposits of Money. All moneys held by or deposited with the Trustee under the provisions of the Trust Agreement shall be held in trust and applied only in accordance with the provisions of the Trust Agreement, and the Facilities Trust Fund established by the Trust Agreement shall be a trust fund for the purposes thereof. All moneys deposited with the Trustee will be credited to the particular account to which such moneys belong.

**Valuation and Sale of Investments.** Obligations purchased as an investment of moneys in any account created under the provisions of the Trust Agreement will be deemed at all times to be a part of such account or subaccount and any profit realized from the liquidation of such investment and any income or interest received on account of such investment shall be credited to, and any loss resulting from the litigation of such investment shall be charged to, such account; subject to the terms of the Trust Agreement.

In computing the amount in any account created under the provisions of the Trust Agreement for any purpose provided in the Trust Agreement, obligations purchased as an investment of moneys therein will be valued:

(a) at face value if such obligations mature within twelve (12) months from the date of valuation thereof; and

(b) if such obligations mature more than twelve (12) months after the date of valuation thereof, at the price at which such obligations are redeemable by the holder at his option, if so redeemable, or, if not so redeemable, at the cost of such obligations plus the amortization of any premium or minus the amortization of any discount thereon plus accrued interest. Such computation shall be made on November 1 of each year or upon the written request of the City delivered to the Trustee.

Notwithstanding the foregoing, investments in the Reserve Account must be valued at market value at the time of valuation.

Except as otherwise provided in the Trust Agreement, the Trustee is required to sell at the best price obtainable or present for prepayment or transfer as provided in the next sentence any obligation so purchased as an investment whenever it shall be requested in writing by an Authorized City Representative to do so or whenever it is necessary in order to provide moneys to meet any payment or transfer from any account held by it. In lieu of such sale or presentment for prepayment, the Trustee may, in making the payment or transfer from any account mentioned in the preceding sentence, transfer such investment obligations or interest appertaining thereto if such investment obligations matures or is collectible at or prior to the time the proceeds thereof will be needed and such transfer of investment obligations may be made in book entry form. The Trustee shall not be liable or responsible for making any such investment in the manner provided above or for any loss resulting from any such investment.

**Investment of Certain Accounts.** (a) Moneys in the Cost of Issuance Account, the Lease Payment Account and the Reserve Account will be invested and reinvested by the Trustee to the fullest extent practicable in Permitted Investments which mature not later than such times as is necessary to provide moneys when needed for payments to be made from such accounts provided such investments shall mature not later than five years from the date of purchase of such securities or the final maturity of the Certificates, whichever is earlier (provided however, the Trustee shall be permitted to invest the Reserve Fund in Investment Agreements as set forth in the definition of Permitted Investments herein), and provided further that investments of the Lease Payment Account and the Reserve Account may not be made in the San Diego Pooled Investment Fund or in the Pooled Operating Investment Fund. Moneys in the Rebate Fund shall be invested only in Governmental Obligations which have a maturity no longer than the date on which such amounts will be required to make any payments to the United States required by the Trust Agreement. The Trustee will make all such investments of moneys held by it in accordance with instructions, confirmed in writing, received from an Authorized City Representative. The Authorized City Representative may instruct the Trustee at least two Business Days prior to making any investment in any Permitted Investments with moneys in any account established under the Trust Agreement, to combine such moneys with moneys in any other account, but solely for purposes of making such investment in such Permitted Investments. The Trustee shall account for investments in accordance with the funds and accounts to which they are credited. In the absence of instruction from the Authorized City Representative, the Trustee shall invest only in Permitted Investments described in subparagraph (6) of the definition of Permitted Investments at its own discretion. The Trustee shall not be liable for losses on investments made in accordance with this paragraph.

(b) The City or the Corporation or both may enter into one or more interest rate swap agreements corresponding to the interest payable with respect to the Certificates or any portion thereof and the amounts received

by the Corporation or the City, if any, pursuant to such a swap agreement may be applied to the deposits required under the Trust Agreement.

(c) Nothing in the Trust Agreement will prevent any Government Obligations acquired as investments of funds held under the Trust Agreement from being issued or held in book-entry form on the books of the Department of the Treasury of the United States of America.

(d) All moneys, if any, held by the City in the Advance Requisition Account, shall be accounted for by the Auditor and Comptroller and invested by the Treasurer in any Permitted Investment, including but not limited to the pooled investment fund of the Treasurer.

(e) In the event the City elects to direct investment of moneys held in any funds and accounts created hereunder in the City of San Diego Pooled Bond Investment Fund or Pooled Operating Investment Fund (and the conditions thereto are satisfied), the City may direct, in writing by an Authorized City Representative, the Trustee to transfer ownership of any securities held by it to such Fund in lieu of liquidation of such securities and reinvestment in such Fund.

Certificates Deemed Paid; Discharge of Trust Agreement. The Principal Components and Interest Components with respect to any Certificate will be deemed paid for all purposes of the Trust Agreement when

(a) Payment of the Principal Component and Interest Component with respect to such Certificate to the due date of such Principal Component and Interest Component (whether at maturity, upon prepayment or otherwise), either (1) has been made in accordance with the terms of the Certificates or (2) has been provided for by depositing with the Trustee (i) moneys sufficient to make such payment and/or (ii) to the extent permitted by law, Government Obligations maturing as to principal and interest in such amounts and at such times as will, together with any moneys held by the Trustee for such purpose, insure the availability of sufficient moneys to make such payment and any applicable premium thereon; and

(b) All compensation and expenses of the Trustee, pertaining to each Certificate in respect of which such payment or deposit is made, have been paid or provided for to the Trustee satisfaction.

When the Principal Components and Interest Components with respect to a Certificate are deemed paid, such Certificate will no longer be secured by or entitled to the benefits of the Trust Agreement, except for payment from the sources specified in (a) above and it may be transferred, exchanged, registered or replaced as provided in the Trust Agreement.

Notwithstanding the foregoing, no deposit under clause (a)(2) of the first paragraph of this Section will be deemed a payment of the Principal Components or Interest Components with respect to the Certificates until (1) (a) in the case of any such Certificates that are to be prepaid on any date prior to their maturity, the City has given to the Trustee in form satisfactory to it irrevocable instructions to mail notice of prepayment of such Certificates in accordance with the Trust Agreement and (b) in the event such Certificates are not by their terms subject to prepayment within the next succeeding sixty (60) days, the City has given the Trustee, in form satisfactory to the Trustee, irrevocable instructions to mail a notice to the Owners of such Certificates that the deposit required by (a)(2) above has been made with the Trustee and that the Principal Components or Interest Components with respect to the Certificates are deemed to have been paid under the Trust Agreement and stating the maturity or prepayment date upon which moneys are to be available for the payment of the Principal Components of and prepayment premiums, if any, due with respect to such Certificates, or (2) the maturity of the Principal Component represented by the Certificate. Any notice given under (1) of this paragraph with respect to Principal Components constituting fewer than all Principal Components of a maturity shall specify the letter and number or other distinguishing mark of each such Certificate representing Principal Components to be paid.

When all Outstanding Certificates are deemed paid under the foregoing provisions of the Trust Agreement, the Trustee will upon request of the City acknowledge the discharge of the Corporation's and City's obligations

under the Trust Agreement and the Certificates except for certain obligations in respect of the transfer, exchange, registration and replacement of Certificates and (ii) Section 9.05 hereof.

**Application of Trust Money.** The Trustee shall hold in trust money or Government Obligations deposited with it pursuant to the preceding Section and shall apply the deposited money and the money from such Government Obligations in accordance with the Trust Agreement only to the payment of the Principal Components, premium, if any and Interest Components with respect to the Certificates for which the deposit has been made.

**Repayment to the City Unclaimed Money.** In the event there exists any excess money or securities held by the Trustee at any time under the Trust Agreement or any money or securities held by the Trustee under any provision of the Trust Agreement for the payment of Principal Components or Interest Components with respect to the Certificates or for the purchase of Certificates, and such moneys or securities remain unclaimed for one (1) year, the Trustee shall, at the request of the City, pay to the City any amounts owed to it and any amount remaining after such payment to the City shall be paid to the City and the Owners of such Certificates shall look only to the City for repayment thereof, and all liability of the Trustee and the Corporation shall thereupon cease.

**Events of Default.** Each of the following events is hereby declared an Event of Default:

(a) the existence of a Lease Default;

(b) failure by the City to perform or observe any other covenant, agreement or obligation on its part contained in the Trust Agreement, which failure shall have continued for a period of thirty (30) days after written notice given to the City by the Trustee, specifying the failure or default and requiring the same to be remedied, which notice shall be given by the Trustee upon the written request of the Owners of Outstanding Certificates representing not less than twenty-five percent (25%) of the aggregate unpaid Principal Component; provided that the party or parties giving such notice may agree in writing to a reasonable extension of such period prior to the expiration of such thirty (30) day period; provided further, however, that if the City proceeds to take curative action which, if begun and prosecuted with due diligence, cannot be completed within such a period of thirty (30) days, then such period will be increased without such written extension to such extent as is necessary to enable the City to diligently complete such curative action.

**Institution of Legal Proceedings by Trustee.** If one or more of the Events of Default set forth in the Trust Agreement shall happen and be continuing, the Trustee in its discretion may, and upon the written request of the Owners of Outstanding Certificates representing not less than twenty-five percent (25%) of the aggregate unpaid Principal Components, and upon being indemnified to its satisfaction therefor, shall proceed to protect or enforce its rights or the rights of the Owners of Certificates under the Trust Agreement by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained herein or in the Facilities Lease, or in aid of the execution of any power herein granted, or for the enforcement of any other appropriate legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties hereunder.

**Distribution of Proceeds of Remedies.** All moneys received by the Trustee pursuant to remedies taken under the Trust Agreement or held in any fund or account established by the Trust Agreement are to be applied, after the payment of all fees and expenses of the Trustee, as follows, in the following order:

**First:** To the payment to the persons entitled thereto of all Interest Components then due in the order of the maturity thereof, and, if the amount available shall not be sufficient to pay in full any Interest Component maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto;

Second: To the payment to the persons entitled thereto of the unpaid Principal Component with respect to any Certificates which shall have become due, whether at maturity or by call for prepayment, in the order of their due dates, with interest on the overdue Principal Component at the rate borne by the respective Certificates, and, if the amount available shall not be sufficient to pay in full all the Certificates due on any date, then to the payment thereof ratably, according to the amounts of Principal Component due on such date to the persons entitled thereto, without any discrimination or preference;

Third: If there shall exist any remainder after the foregoing payments, such remainder shall be paid to the City.

Suit By Owners. No Owner has any right, remedy or power to institute any suit, action or proceeding for the enforcement of the Trust Agreement or the Facilities Lease, for the execution of any trust, or exercise of any other right, remedy or power under such agreements or instruments, unless (a) there has occurred and is continuing an Event of Default of which the Trustee has been notified; (b) the Owners of Outstanding Certificates representing at least twenty-five percent (25%) of the aggregate unpaid Principal Component have made written request to the Trustee and has afforded the Trustee a reasonable opportunity to proceed to exercise the rights, remedies and powers or to institute the suit, action or proceeding in its own name, and has offered indemnification to the Trustee as provided in the Trust Agreement; and (c) the Trustee has failed or refused thereafter to exercise the rights, remedies and powers or to institute the suit, action or proceeding in its own name.

Effect of Delay or Omission to Pursue Remedy. No delay or omission of the Trustee or of any Owner to exercise any right or power arising from any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or acquiescence therein; and every power and remedy given by the Trust Agreement to the Trustee or to the Owners may be exercised from time to time, and as often as may be deemed expedient. In case the Trustee shall have proceeded to enforce any right under the Trust Agreement and such proceedings shall have been discontinued or abandoned because of waiver or for any other reasons, or shall have been determined adversely to the Trustee, then and in every such case the Trustee and the Owners, severally and respectively, shall be restored to their former positions and rights hereunder; and all remedies, rights and powers of the Trustee and the Owners shall continue as though no such proceedings had been taken.

Remedies Cumulative. No remedy conferred upon or reserved to the Trustee or to any Owner is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and is in addition to every other remedy given hereunder or now or hereafter existing in law or in equity or by statute or otherwise; and the exercise by the Trustee or by any Owner of any remedy hereunder shall not limit or impair the exercise of any other remedy given hereunder.

## THE ASSIGNMENT AGREEMENT

The Assignment Agreement provides for the transfer, assignment and setting over by the Lessor to the Trustee, for the benefit of the Owners of Certificates, all estate, right, title and interest of the Corporation in and to the Lease Payments and all rights to enforce the payment of Lease Payments under the Facilities Lease, including, without limitation, all amounts from time to time deposited in the accounts and subaccounts created pursuant to the Trust Agreement and, subject to the Rebate Fund provisions of the Trust Agreement, investment earnings thereon. The Assignment Agreement is executed and delivered to secure the rights and remedies of the Owners of the Certificates under and as defined in the Trust Agreement, and will constitute security for the payment of the Certificates (as defined in the Trust Agreement) and the performance of each and all obligations of the City under the Facilities Lease. All rights assigned by the Corporation will be administered by the Trustee as assignee thereof according to the provisions of the Trust Agreement and for the equal and proportionate benefits of the Owners of the Certificates.

The Trustee accepts the assignment made under the Assignment Agreement, for the purpose of securing the right assigned to it to receive all such Lease Payments from the City under the Facilities Lease Agreement and the other rights assigned to it, subject to the terms and provisions of the Trust Agreement, and all such installment

payments shall be applied and the rights so assigned shall be exercised by the Trustee as provided in the Trust Agreement.

#### **THE SITE LEASE**

Pursuant to the Site and Facilities Lease, the City, leases to the Corporation, and the Corporate Leases from the City, in the Facilities. The term of the Site Lease will commence as of the date of the Lease and will remain in effect until the expiration of the term of the Lease.



**APPENDIX D**  
**FORM OF SPECIAL COUNSEL LEGAL OPINION**

August \_\_, 1996

City of San Diego  
San Diego, California

Ladies and Gentlemen:

We have examined a certified copy of the record of the proceedings relative to the execution and delivery of \$11,720,000 aggregate principal amount of Refunding Certificates of Participation (Balboa Park and Mission Bay Park Capital Improvements Program, Series 1991) Series 1996B, dated August 1, 1996 (the "1996 Certificates"), each evidencing and representing an interest of the registered owner thereof in the rights to receive Lease Payments (as that term is defined in the Trust Agreement hereinafter mentioned) under and pursuant to that certain Lease/Purchase Agreement (the "Lease"), dated as of August 1, 1996, by and between the City of San Diego (the "City") and the San Diego Facilities Equipment Leasing Corporation (the "Corporation"), which rights to receive such Lease Payments have been assigned by the Corporation to the trustee named therein (the "Trustee"), pursuant to the Assignment Agreement, dated as of August 1, 1996, by and between the Trustee and the Corporation. The 1996 Certificates have been executed by the Trustee pursuant to the terms of the Trust Agreement, dated as of August 1, 1996, by and among the City, the Corporation and the Trustee (the "Trust Agreement").

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same by independent investigations.

In our opinion such proceedings show lawful authority for the execution and delivery by the City of the Trust Agreement and the Lease under the laws of the State of California now in force, and the Lease and the Trust Agreement have been duly authorized, executed and delivered by the City, and, assuming due authorization, execution and delivery by the Trustee and the Corporation, as appropriate, are valid and binding obligations of the City, enforceable in accordance with their respective terms. The 1996 Certificates, assuming due execution and delivery by the Trustee, are entitled to the benefits of the Trust Agreement. The obligation of the City to make the Lease Payments under the Lease does not constitute a debt of the City, or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limit or restriction, and does not constitute an obligation for which the City is obligated to levy or pledge any form of taxation or for which the City has levied or pledged any form of taxation.

We are further of the opinion that based on existing statutes, regulations, rulings and judicial decisions and assuming continuing compliance by the City with certain covenants in the Lease and the Trust Agreement and requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of 1996 Certificate proceeds and the rebate of certain investment earnings to the United States Treasury, the portion of each Lease Payment due under the Lease designated as and evidencing and representing interest paid by the City under the Lease and received by owners of the 1996 Certificates is not includable in the gross income of the owners of the 1996 Certificates for purposes of federal income taxation. Failure by the City to comply with such covenants and requirements may cause the portion of each Lease Payment designated as and evidencing and representing

interest to be included in the gross income of the owners of the 1996 Certificates retroactive to the date of execution and delivery of the 1996 Certificates.

The portion of each Lease Payment due under the Lease designated as and evidencing and representing interest paid by the City under the Lease and received by the owners of the 1996 Certificates will not be treated as an item of tax preference in calculating the alternative minimum taxable income of individuals or corporations; however, such portion will be included as an adjustment in the calculation of corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax and environmental tax liabilities.

We are also of the opinion that based on existing law, the portion of each Lease Payment due under the Lease designated as and evidencing and representing interest paid by the City under the Lease and received by the owners of the 1996 Certificates is exempt from State of California personal income taxes.

We express no opinion regarding other income tax consequences caused by ownership of, or the receipt of interest with respect to, the 1996 Certificates.

With respect to the opinions expressed herein, the rights and obligations under the 1996 Certificates, the Lease and the Trust Agreement are subject to bankruptcy, insolvency, moratorium and other laws affecting the enforcement of creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to the limitation on legal remedies against public agencies in the State of California.

Respectfully submitted,

## APPENDIX E

### CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the CITY OF SAN DIEGO (the "City") in connection with the execution and delivery by the City of its Refunding Certificates of Participation (Balboa Park and Mission Bay Park Capital Improvements Program, Series 1991) Series 1996B, in an aggregate principal amount of \$11,720,000 (the "Certificates"). The Certificates are being executed and delivered pursuant to a Trust Agreement, dated as of August 1, 1996, by and among the City, the San Diego Facilities and Equipment Leasing Corporation and BNY Western Trust Company (the "Trustee") (the "Trust Agreement"). The City covenants as follows:

**SECTION 1. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the City for the benefit of the Holders and Beneficial Owners of the Certificates and in order to assist the Participating Underwriter in complying with S.E.C. Rule 15c2-12(b)(5).

**SECTION 2. Definitions.** The definitions set forth in the Trust Agreement apply to any capitalized term used in this Disclosure Certificate, unless such terms are otherwise defined in this Section 2 below:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Beneficial Owner" shall mean any person which (a) has or shares the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

"Disclosure Representative" shall mean the City Manager of the City, or their designee, or such other officer or employee as the City shall designate in writing from time to time.

"Dissemination Agent" shall mean the City, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the City.

"Holders" shall mean either the registered owners of the Certificates, or, if the Certificates are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in its depository system.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule. The National Repositories currently approved by the Securities and Exchange Commission are set forth in Exhibit B to this Disclosure Certificate.

"Participating Underwriter" shall mean any of the original underwriters of the Certificates required to comply with the Rule in connection with the offering of the Certificates.

"Repository" shall mean each National Repository and each State Repository.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State" shall mean the State of California.

"State Repository" shall mean any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

"Tax Owner" means the owner of any Certificates for Federal income tax purposes. The assertion of any tax ownership of a Certificates must be filed with full documentary support, as part of a written request pursuant to Section 10 hereof.

**SECTION 3. Provision of Annual Reports.**

(a) The City shall, not later than 285 days after the end of the City's fiscal year (presently April 11 of the calendar year following the end of the City's fiscal year), commencing with the report for the end of the 1996-97 Fiscal Year, prepare an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate and shall, or shall cause the Dissemination Agent, if applicable, to provide such Annual Report to each Repository not later than 285 days after the end of the City's fiscal year. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; *provided* that the audited financial statements of the City may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the City's fiscal year changes, the City shall give notice of such change in the same manner as for a Listed Event under Section 5(c).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the City shall provide the Annual Report to the Dissemination Agent (if other than the City).

(c) If the City is unable to provide the Repositories an Annual Report as required in subsection (a), the City shall send a notice to each Repository in substantially the form attached as Exhibit A hereto.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and (if the Dissemination Agent is other than the City)

(ii) file a report with the City and certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided and listing all the Repositories to which it was provided.

**SECTION 4. Content of Annual Reports.** The City's Annual Report shall be in format suitable for filing with each Repository and shall contain or incorporate by reference (i) the City's audited financial statements for the prior fiscal year, prepared in accordance with generally accepted accounting principles in effect from time to time and (ii) updates of information contained in the following tables in the Official Statement, dated July 31, 1996, relating to the Certificates:

1. Table 11 - Building Permits.
2. Table 12 - Balance Sheet for the General Fund.
3. Table 13 - Statement of Revenues, Expenditures and Changes in Fund Balance for the General Fund.

4. Table 14 - Operating Budget Summary (Actual, Adopted).
5. Table 15 - Assessed Valuation.
6. Table 16 - Secured Levies and Collections.
7. Table 17 - Principal Taxpayers.
8. Information under the caption "Labor Relations."
9. Information under the caption "Pension Plan."
10. Table 18 - Annual Claims and Insurance Premium Payments.
11. Table 19 - Pooled Investment Fund.
12. Table 20 - Long-Term Obligations.
13. Table 21 - Short Term Borrowings.
14. Table 22 - Future Minimum Rental Payments.
15. Table 23 - Direct and Overlapping Debt.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the City or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The City shall clearly identify each such other document so included by reference.

#### **SECTION 5. Reporting of Significant Events.**

(a) Pursuant to the provisions of this Section 5, the City shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Certificates, if the City determines that such event is material under federal securities law:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Certificate Holders;
4. optional, contingent or unscheduled prepayments;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events adversely affecting the tax-exempt status of the Certificates;
8. unscheduled draws on credit enhancements reflecting financial difficulties;

9. unscheduled draws on the Reserve Account reflecting financial difficulties;
10. substitution of credit or liquidity providers or their failure to perform; and
11. release, substitution or sale of property securing repayment of the Certificates.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event the City shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the City has determined that knowledge of the occurrence of a Listed Event would be material under federal securities laws, the City shall promptly file such notice with the Repositories. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) shall not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Certificates pursuant to the Trust Agreement.

**SECTION 6. Termination of Reporting Obligation.** The obligations of the City under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Certificates. If such termination occurs prior to the final maturity of the Certificates, the City shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

**SECTION 7. Dissemination Agent.** The City may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent.

**SECTION 8. Amendment; Waiver.** Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived, provided the following conditions are satisfied:

(a) the amendment or waiver is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the City or type of business conducted; and

(b) this Disclosure Certificate, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original execution and delivery of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the amendment or waiver either (i) is approved by the Holders of the Certificates in the same manner as provided in the Trust Agreement for amendments to the Trust Agreement with the consent of the Holders, or (ii) does not materially impair the interests of Certificate Holders, as determined by nationally recognized bond counsel; and

(d) in the event of any amendment of this Disclosure Certificate, the City shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the City. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(c), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

**SECTION 9. Additional Information.** Nothing in this Disclosure Certificate shall be deemed to prevent the City from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the City chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the City shall not have any obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

**SECTION 10. Default.** In the event of a failure of the City or the Dissemination Agent, if applicable, to comply with any provision of this Disclosure Certificate any Holder or Beneficial Owner of the Certificates may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the City or the Dissemination Agent (if applicable), as the case may be, to comply with its obligations under this Disclosure Certificate provided such action is taken in the Federal or State Court located in the County of San Diego, State of California, and provided further that no remedy other than substantial performance may sought or granted against the City. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action to compel substantial performance.

**SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent.** The Dissemination Agent (if one is appointed by the City) shall have only such duties as are specifically set forth in this Disclosure Certificate, and the City agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of the disclosure of information pursuant to this Disclosure Certificate or out of or in the exercise or performance of their powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the gross negligence or wilful misconduct of the Dissemination Agent. The obligations of the City under this Section shall survive resignation or removal of the Dissemination Agent, termination of Disclosure Certificate and payment of the Certificates. The Dissemination Agent (if not the City) shall not have any responsibility or liability for the failure to report any Listed Event or any financial information or as to which the City did not prepare a report in a format suitable for filing with the Repositories.

**SECTION 12. Notices.** Any notices or communications to or among any of the parties to this Disclosure Certificate may be given as follows:

To the City:                      City of San Diego  
   202 "C" Street  
   Mail Station 9-B  
   San Diego, CA 92101  
   Attention: Financial and Technical Services Manager  
   Fax: (619) 236-6219  
   Telephone: (619) 236-6070

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

**SECTION 13. Beneficiaries.** This Disclosure Certificate shall inure solely to the benefit of the City, the Dissemination Agent, the Participating Underwriter and Holders from time to time of the Certificates, and shall create no rights in any other person or entity.

**SECTION 14. Signature.** This Disclosure Certificate has been executed by the undersigned on the date hereof, and such signature binds the City to the undertaking herein provided.

**Dated:** August 15, 1996

**CITY OF SAN DIEGO**

**By:** \_\_\_\_\_  
City Manager



**EXHIBIT A**

**NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT**

**Name of Obligated Party:** City of San Diego (the "City")

**Name of Issue:** Certificates of Participation (Balboa Park and Mission Bay Park Capital Improvements Program Series 1991) Series 1996B

**Date of Delivery:** August 15, 1996

NOTICE IS HEREBY GIVEN that the City has not provided an Annual Report with respect to the above-named Certificates as required by Section 3 of the Continuing Disclosure Certificate, dated as of August 15, 1996. [The City anticipates that the Annual Report will be filed by \_\_\_\_\_.]

**Dated:** \_\_\_\_\_

CITY OF SAN DIEGO

**cc:** City Manager  
City of San Diego

## **EXHIBIT B**

Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission as of the date of this Disclosure Certificate:

**Bloomberg Municipal Repository**

P.O. Box 840  
Princeton, NJ 08542-0840  
Internet address: MUNIS@bloomberg.doc  
(609) 279-3200  
FAX (609) 279-3235 (609) 279-5963  
Contact: Dave Campbell

**Moody's NRMSIR**

Public Finance Information Center  
99 Church Street  
New York, NY 10007-2796  
(800) 339-6306  
FAX (212) 553-1460  
Contact: Claudette Stephenson  
(212) 553-0345

**Disclosure, Inc.**

Document Augmentation/  
Municipal Securities  
5161 River Road  
Bethesda, MD 20816  
(301) 951-1450  
FAX (301) 718-2329  
Contact: Barry Sugarman (301) 215-6015

**Thomson NRMSIR**

Secondary Market Disclosure  
395 Hudson Street, 3rd Floor  
New York, NY 10014  
Internet address: Disclosure@muller.com  
(212) 807-3826  
FAX (212) 989-2078  
Contact: Thomas Garske

**JJ Kenny Information Services**

The Repository  
65 Broadway, 16th Floor  
New York, NY 10006  
(212) 770-4568  
FAX (212) 797-7994  
Contact: Joan Horai, Repository

**R.R. Donnelley Financial**

Attention: Municipal Securities Disclosure Archive  
559 Main Street  
Hudson, MA 01749  
(800) 580-3670  
FAX (508) 562-1969  
Contact: James Johnson

## **APPENDIX F**

### **EXCERPTS FROM CITY'S COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDING JUNE 30, 1995**

**CALDERON, JAHAM & OSBORN**  
AN ACCOUNTANCY CORPORATION

CERTIFIED PUBLIC ACCOUNTANTS  
SYMPHONY TOWERS  
750 "B" STREET, SUITE 2350  
SAN DIEGO, CALIFORNIA 92101  
TELEPHONE (619) 234-6137  
FAX (619) 234-6162

OFFICES  
IN  
SAN DIEGO  
EL CENTRO  
BRAWLEY

**INDEPENDENT AUDITORS' REPORT**

The Honorable Mayor, Members of the  
City Council and City Manager of the  
City of San Diego, California

We have audited the accompanying general purpose financial statements and the combining and individual fund and account group financial statements of the City of San Diego, California, as of and for the year ended June 30, 1995, as listed in the foregoing table of contents. These financial statements are the responsibility of City of San Diego, California management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of Office of Management and Budget Circular A-128, Audits of State and Local Governments. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the City of San Diego, California, as of June 30, 1995, and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with generally accepted accounting principles. Also, in our opinion, the combining and individual fund and account group financial statements referred to above present fairly, in all material respects, the financial position of each of the individual funds and account groups of the City of San Diego, California, as of June 30, 1995, and the results of operations of such funds and cash flows of individual proprietary fund types and nonexpendable trust funds for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 10, 1995, on our consideration of the City of San Diego's internal control structure and a report dated November 10, 1995, on its compliance with laws and regulations.

Our audit was conducted for the purpose of forming an opinion on the general purpose financial statements taken as a whole and on the combining and individual fund and account group financial statements. The information listed as supporting schedules and statistical data in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements of the City of San Diego, California. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the general purpose, combining and individual fund and account group financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements of each of the respective individual funds and account groups, taken as a whole.

November 10, 1995



## **GENERAL PURPOSE FINANCIAL STATEMENTS**

THESE STATEMENTS PROVIDE A SUMMARY OVERVIEW OF THE FINANCIAL POSITION OF ALL FUNDS AND ACCOUNT GROUPS AND OF THE OPERATING RESULTS BY FUND TYPES. THEY ALSO SERVE AS AN INTRODUCTION TO THE MORE DETAILED STATEMENTS AND SCHEDULES THAT FOLLOW

## **GENERAL PURPOSE FINANCIAL STATEMENTS**

IN ACCORDANCE WITH THE RECOMMENDATIONS OF THE GOVERNMENTAL ACCOUNTING STANDARDS BOARD, THE FOLLOWING COMBINED STATEMENTS ARE PRESENTED:

Combined Balance Sheet - All Fund Types, Account Groups and Discretely Presented Component Unit

Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types, Expendable Trust Funds and Discretely Presented Component Unit.

Combined Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual (Budgetary Basis) - Budgeted Governmental Fund Types

Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances - All Proprietary Fund Types and Similar Trust Funds

Combined Statement of Cash Flows - Increase (Decrease) in Cash and Cash Equivalents - All Proprietary Fund Types and Nonexpendable Trust Fund

Notes to Financial Statements

Required Supplementary Information - Pension Trust Funds Analysis of Funding Progress, Revenue Sources, Expenses by Type - Last Ten Years

# THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNIT  
June 30, 1995  
( In Thousands )

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>ASSETS AND OTHER DEBITS</b>				
Cash or Equity in Pooled Cash and Investments .....	\$ 16,394	\$ 189,199	\$ 9,253	\$ 224,486
Cash With Custodian/Fiscal Agent .....	---	242	9,359	17,546
Investments at Cost .....	---	13,907	64,059	5,149
Receivables:				
Taxes - Net .....	21,164	3,278	18	---
Accounts - Net .....	21,449	3,280	---	2
Claims - Net .....	31	---	---	---
Special Assessments - Net .....	---	1,728	7,407	---
Notes .....	182	28,966	---	1,758
Contributions .....	---	---	---	---
Accrued Interest .....	2,411	1,697	473	2,268
Grants .....	---	7,016	---	6,268
Loans to Redevelopment Agency .....	---	575	---	---
From Other Funds .....	358	40	---	42,481
Due from Primary Government .....	---	---	---	---
From Other Agencies .....	70	352	242,785	---
Advances to Other Funds .....	10,980	4,892	---	612
Advances to Other Agencies .....	350	42,777	---	---
Inventories of Water in Storage .....	---	---	---	---
Inventories .....	---	---	---	---
Land Held for Resale .....	---	303	---	23,127
Prepaid and Reimbursable Items and Deposits .....	1,065	612	1,024	---
Restricted Assets:				
Cash or Equity in Pooled Cash and Investments -				
Interest and Redemption Funds .....	---	1,279	---	---
Cash with Custodian/Fiscal Agent .....	---	---	---	---
Deferred Charges .....	---	---	---	---
Fixed Assets - Net .....	---	---	---	---
Amount Available for Payment of				
General Long-Term Debt .....	---	---	---	---
Amount to be Provided for Retirement				
of Long-Term Debt .....	---	---	---	---
<b>TOTAL ASSETS AND OTHER DEBITS .....</b>	<b>\$ 74,454</b>	<b>\$ 300,143</b>	<b>\$ 334,378</b>	<b>\$ 323,697</b>

The accompanying notes are an integral part of the financial statements.

# THE CITY OF SAN DIEGO

# ANNUAL FINANCIAL REPORT

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals Primary Government	Component Unit	Totals Reporting Entity
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Debt	(Memo-randum Only)	San Diego Convention Center Corporation	(Memo-randum Only)
\$ 506,896	\$ 47,679	\$ 287,230	\$ ---	\$ ---	\$ 1,281,137	\$ 2,613	\$ 1,283,750
940	---	835	---	---	28,922	---	28,922
1,418	---	1,344,687	---	---	1,429,220	358	1,429,578
---	---	---	---	---	24,460	---	24,460
62,780	334	4,124	---	---	91,979	1,077	93,056
9	20	---	---	---	60	---	60
16	---	---	---	---	9,151	---	9,151
---	---	---	---	---	30,906	---	30,906
---	---	1,403	---	---	1,403	---	1,403
6,010	47	12,855	---	---	25,761	---	25,761
16,805	---	---	---	---	30,089	---	30,089
---	---	---	---	---	575	---	575
15,594	---	---	---	---	58,473	---	58,473
---	---	---	---	---	---	1,021	1,021
---	---	---	---	---	243,207	20	243,227
22,200	228	---	---	---	38,912	---	38,912
---	---	---	---	---	43,127	---	43,127
14,783	---	---	---	---	14,783	---	14,783
640	3,234	---	---	---	3,874	---	3,874
---	---	---	---	---	23,430	---	23,430
24,975	560	9	---	---	28,245	351	28,596
13,697	---	---	---	---	14,976	---	14,976
170	---	---	---	---	170	---	170
6,501	---	---	---	---	6,501	---	6,501
1,730,905	26,635	---	1,044,046	---	2,801,586	2,121	2,803,707
---	---	---	---	110,100	110,100	---	110,100
---	---	---	---	756,703	756,703	462	757,165
<u>\$ 2,424,349</u>	<u>\$ 78,737</u>	<u>\$ 1,651,143</u>	<u>\$ 1,044,046</u>	<u>\$ 866,803</u>	<u>\$ 7,097,750</u>	<u>\$ 8,023</u>	<u>\$ 7,105,773</u>

Continued on next page

# THE CITY OF SAN DIEGO

# ANNUAL FINANCIAL REPORT

## COMBINED BALANCE SHEET – ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNIT June 30, 1995 ( In Thousands )

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>LIABILITIES</b>				
Obligations Under Reverse Repurchase Agreements .....	\$ 2,180	\$ 21,858	\$ 1,038	\$ 17,502
Accounts Payable .....	2,633	7,269	1	5,034
Accrued Wages and Benefits .....	8,722	1,425	---	---
Other Accrued Liabilities .....	---	31,357	---	---
Employees' Deferred Compensation /401(k) Plans .....	---	---	---	---
Liability Claims .....	---	---	---	---
Matured Bonds, Notes and Interest Payable .....	---	---	364	---
Interest Accrued on Long-Term Debt .....	---	---	---	---
Long-Term Debt Due Within One Year .....	---	---	---	---
Due to Other Funds .....	---	42,840	---	15,133
Due to Component Unit .....	---	1,021	---	---
Due to Other Agencies .....	---	592	---	12
Deferred Revenue .....	29,905	37,661	250,173	39,964
Advances from Other Funds .....	---	1,573	---	1,431
Advances from Other Agencies .....	---	31	1,000	---
Deposits/Advances from Others .....	---	3,506	---	---
Sundry Trust Liabilities .....	---	187	---	485
Estimated Landfill Closure and Postclosure Care .....	---	---	---	---
Capital Lease Obligations .....	---	---	---	---
Contracts and Notes Payable .....	---	---	---	---
General and Special Obligation Bonds Payable .....	---	---	---	---
<b>TOTAL LIABILITIES .....</b>	<b>43,440</b>	<b>149,320</b>	<b>252,576</b>	<b>79,561</b>
<b>FUND EQUITY AND OTHER CREDITS</b>				
Investment in General Fixed Assets .....	---	---	---	---
Contributed Capital .....	---	---	---	---
Retained Earnings (Deficit):				
Reserved for Claims and Contingencies .....	---	---	---	---
Reserved for General Long-Term Claims .....	---	---	---	---
Unreserved .....	---	---	---	---
Fund Balances:				
Reserved for Land Held for Resale .....	---	303	---	23,127
Reserved for Encumbrances .....	5,323	26,681	---	64,051
Reserved for Advances and Deposits .....	11,330	3,412	---	130
Reserved for Nonexpendable Trust .....	---	---	---	---
Reserved for Pension Benefits .....	---	---	---	---
Reserved for Debt Service .....	---	28,298	81,802	---
Reserved for Loan Commitments .....	---	14,056	---	---
Reserved for Project Equity/Operations .....	---	3,893	---	---
Unreserved:				
Designated for Subsequent Years'				
Expenditures .....	2,871	33,575	---	107,918
Undesignated .....	11,490	40,605	---	48,910
<b>TOTAL FUND EQUITY AND OTHER CREDITS .....</b>	<b>31,014</b>	<b>150,823</b>	<b>81,802</b>	<b>244,136</b>
<b>TOTAL LIABILITIES AND FUND EQUITY AND OTHER CREDITS .....</b>	<b>\$ 74,454</b>	<b>\$ 300,143</b>	<b>\$ 334,378</b>	<b>\$ 323,697</b>

The accompanying notes are an integral part of the financial statements.



# THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Totals Primary Government	Component Unit	Totals Reporting Entity
Enterprise	Internal Service	Trust and Agency	General Fixed Assets	General Long-Term Debt	(Memo-randum Only)	San Diego Convention Center Corporation	(Memo-randum Only)
\$ 50,736	\$ 3,185	\$ 7,466	\$ ---	\$ ---	\$ 103,965	\$ ---	\$ 103,965
50,595	2,667	9,551	---	---	77,750	2,328	80,078
12,636	3,989	127	---	39,934	66,833	592	67,425
404	---	---	---	---	31,761	896	32,657
---	---	86,470	---	---	86,470	358	86,828
9,420	28,454	---	---	24,231	62,105	---	62,105
170	---	---	---	---	534	---	534
1,548	---	---	---	---	1,548	---	1,548
7,044	---	---	---	---	7,044	---	7,044
500	---	---	---	---	58,473	---	58,473
---	---	---	---	---	1,021	---	1,021
6	---	595	---	---	1,205	---	1,205
29,905	565	353	---	---	388,526	---	388,526
---	35,038	870	---	---	38,912	---	38,912
---	---	---	---	---	1,031	---	1,031
760	---	7,344	---	---	11,610	1,728	13,338
---	---	8,701	---	---	9,373	---	9,373
8,990	---	---	---	---	8,990	---	8,990
287	---	---	---	11	298	---	298
240,259	---	553	---	99,307	340,119	---	340,119
---	---	---	---	703,320	703,320	---	703,320
413,260	73,898	122,030	---	866,803	2,000,888	5,902	2,006,790
---	---	---	1,044,046	---	1,044,046	2,121	1,046,167
1,161,774	226	---	---	---	1,162,000	---	1,162,000
---	5,402	---	---	---	5,402	---	5,402
---	(25,147)	---	---	---	(25,147)	---	(25,147)
849,315	24,358	---	---	---	873,673	---	873,673
---	---	---	---	---	23,430	---	23,430
---	---	1,425	---	---	97,480	---	97,480
---	---	---	---	---	14,872	---	14,872
---	---	5,355	---	---	5,355	---	5,355
---	---	1,520,190	---	---	1,520,190	---	1,520,190
---	---	---	---	---	110,100	---	110,100
---	---	---	---	---	14,056	---	14,056
---	---	---	---	---	3,893	---	3,893
---	---	212	---	---	144,576	---	144,576
---	---	1,931	---	---	102,936	---	102,936
2,011,089	4,839	1,529,113	1,044,046	---	5,096,862	2,121	5,098,983
\$ 2,424,349	\$ 78,737	\$ 1,651,143	\$ 1,044,046	\$ 866,803	\$ 7,097,750	\$ 8,023	\$ 7,105,773

# THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

## COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNIT Year Ended June 30, 1995 ( In Thousands )

	<u>General</u>
<b>REVENUES</b>	
Property Taxes and Special Assessments .....	\$ 112,472
Other Local Taxes .....	148,591
Licenses and Permits .....	25,820
Fines, Forfeitures and Penalties .....	16,902
Revenue from Use of Money and Property .....	25,445
Revenue from Federal Agencies .....	540
Revenue from Other Agencies .....	42,854
Revenue from Private Sources .....	--
Charges for Current Services .....	68,435
Other Revenue .....	<u>3,136</u>
<b>TOTAL REVENUES</b> .....	<u>444,195</u>
<b>EXPENDITURES</b>	
Current:	
General Government .....	78,547
Public Safety .....	249,638
Libraries .....	17,052
Parks, Recreation and Culture .....	42,574
General Services .....	60,135
Engineering and Development .....	22,365
Housing and Community Development .....	--
Public Transportation .....	--
Employment and Social Service Programs .....	492
Miscellaneous and Unallocated .....	1,985
Capital Projects .....	--
Debt Service:	
Principal Retirement .....	--
Interest .....	<u>--</u>
<b>TOTAL EXPENDITURES</b> .....	<u>472,788</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	<u>(28,593)</u>
<b>OTHER FINANCING SOURCES (USES)</b>	
Long-Term Debt Proceeds .....	--
Transfers from Escrow Agent .....	--
Transfers from Proprietary/Fiduciary Funds .....	931
Transfers from Other Funds .....	30,119
Transfers from Primary Government .....	--
Transfers to Escrow Agent .....	--
Transfers to Proprietary Funds .....	(4,921)
Transfers to Other Funds .....	(2,429)
Transfers to Component Unit .....	--
Resources from Installment Purchase Agreement .....	--
Cost of Issuance, Bonds and Notes .....	<u>--</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<u>23,700</u>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b> .....	<u>(4,893)</u>
Fund Balances at Beginning of Year .....	34,844
Residual Equity Transfers from (to) Other Funds .....	<u>1,063</u>
<b>FUND BALANCES AT END OF YEAR</b> .....	<u>\$ 31,014</u>

The accompanying notes are an integral part of the financial statements.

# THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

Governmental Fund Types			Fiduciary Fund Type	Totals Primary Government	Component Unit	Totals Reporting Entity
Special Revenue	Debt Service	Capital Projects	Expendable Trust	(Memo-randum Only)	San Diego Convention Center Corporation	(Memo-randum Only)
\$ 20,243	\$ 22,323	\$ 1,711	\$ ---	\$ 156,749	\$ ---	\$ 156,749
79,879	---	31,113	---	259,583	---	259,583
3,367	---	1,691	---	30,878	---	30,878
1,535	---	5	1	18,443	---	18,443
30,176	4,280	12,611	172	72,684	12,943	85,627
103,703	---	4,278	---	108,521	---	108,521
6,922	15,350	18,064	1	83,191	---	83,191
6,064	609	18,606	210	25,489	---	25,489
7,420	---	---	2	75,857	---	75,857
6,290	---	9,248	---	18,674	229	18,903
<u>265,599</u>	<u>42,562</u>	<u>97,327</u>	<u>386</u>	<u>850,069</u>	<u>13,172</u>	<u>863,241</u>
10,274	95	4,457	474	93,847	---	93,847
1,789	---	35	15	251,477	---	251,477
1,945	---	---	46	19,043	---	19,043
34,842	---	52	48	77,516	17,860	95,376
16,277	---	36	---	76,448	---	76,448
5,805	---	(226)	---	27,944	---	27,944
98,042	---	(2)	---	98,040	---	98,040
958	---	130	78	1,166	---	1,166
7,937	---	---	---	8,429	---	8,429
---	---	---	4	1,989	---	1,989
24,900	---	190,374	104	215,378	---	215,378
---	24,860	---	---	24,860	---	24,860
---	39,401	---	---	39,401	---	39,401
<u>202,769</u>	<u>64,356</u>	<u>194,856</u>	<u>769</u>	<u>935,538</u>	<u>17,860</u>	<u>953,398</u>
<u>62,830</u>	<u>(21,794)</u>	<u>(97,529)</u>	<u>(383)</u>	<u>(85,469)</u>	<u>(4,688)</u>	<u>(90,157)</u>
---	21,582	2,368	---	23,950	---	23,950
---	607	---	---	607	---	607
---	914	635	---	2,480	---	2,480
41,169	21,804	24,523	---	117,615	---	117,615
---	---	---	---	---	4,688	4,688
(8,333)	(8,227)	---	---	(16,560)	---	(16,560)
(3,896)	---	(2,419)	---	(11,236)	---	(11,236)
(88,671)	(10,842)	(15,673)	---	(117,615)	---	(117,615)
(4,688)	---	---	---	(4,688)	---	(4,688)
---	---	---	---	---	---	---
(6)	(492)	(74)	---	(572)	---	(572)
<u>(64,425)</u>	<u>25,346</u>	<u>9,360</u>	<u>---</u>	<u>(6,019)</u>	<u>4,688</u>	<u>(1,331)</u>
(1,595)	3,552	(88,169)	(383)	(91,488)	---	(91,488)
152,418	76,015	334,569	2,591	600,437	---	600,437
---	2,235	(2,264)	---	1,034	---	1,034
<u>\$ 150,823</u>	<u>\$ 81,802</u>	<u>\$ 244,136</u>	<u>\$ 2,208</u>	<u>\$ 509,983</u>	<u>\$ ---</u>	<u>\$ 509,983</u>

# THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

## COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN UNDESIGNATED FUND BALANCES BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED GOVERNMENTAL FUND TYPES Year Ended June 30, 1995 (In Thousands)

	General Fund	
	Actual on Budgetary Basis	Budget
<b>REVENUES</b>		
Property Taxes and Special Assessments .....	\$ 112,472	\$ 113,844
Other Local Taxes .....	148,591	149,032
Licenses and Permits .....	25,820	25,618
Fines, Forfeitures and Penalties .....	16,902	19,189
Revenue from Use of Money and Property .....	23,869	23,642
Revenue from Federal Agencies .....	540	110
Revenue from Other Agencies .....	42,854	41,358
Revenue from Private Sources .....	---	---
Charges for Current Services .....	68,435	69,423
Other Revenue .....	3,136	1,771
Excess Revenue Appropriated .....	---	---
<b>TOTAL REVENUES</b> .....	<b>442,619</b>	<b>443,967</b>
<b>EXPENDITURES</b>		
Current		
General Government .....	77,567	83,041
Public Safety .....	252,004	253,282
Libraries .....	17,132	17,889
Parks, Recreation and Culture .....	43,982	46,096
General Services .....	62,566	64,216
Engineering and Development .....	22,525	23,247
Housing and Community Development .....	---	---
Public Transportation .....	---	---
Employment and Social Service Programs .....	493	509
Miscellaneous and Unallocated .....	2,057	2,644
Capital Projects .....	---	---
Debt Service:		
Principal Retirement .....	---	---
Interest .....	---	---
<b>TOTAL EXPENDITURES</b> .....	<b>478,346</b>	<b>490,704</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b> .....	<b>(35,727)</b>	<b>(46,717)</b>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers from Proprietary/Fiduciary Funds .....	7,481	6,899
Transfers from Other Funds .....	30,119	32,914
Transfers to Proprietary Funds .....	(4,921)	(4,921)
Transfers to Other Funds .....	(2,429)	(2,429)
Transfers to Component Unit .....	---	---
<b>TOTAL OTHER FINANCING SOURCES (USES)</b> .....	<b>30,250</b>	<b>32,463</b>
<b>EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES</b> .....	<b>(5,477)</b>	<b>(14,254)</b>
Fund Balances Undesignated at July 1, 1994 .....	7,329	7,329
Residual Equity Transfers from (to) Other Funds .....	1,063	1,063
Reserved for Encumbrances at July 1, 1994 .....	8,487	8,487
Reserved for Debt Service at July 1, 1994 .....	---	---
Reserved for Debt Service at June 30, 1995 .....	---	---
Designated for Subsequent Years' Expenditures at July 1, 1994 .....	2,959	2,959
Designated for Subsequent Years' Expenditures at June 30, 1995 .....	(2,871)	---
<b>FUND BALANCES UNDESIGNATED AT JUNE 30, 1995</b> .....	<b>\$ 11,490</b>	<b>\$ 5,584</b>

The accompanying notes are an integral part of the financial statements.

# THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

Budgeted Special Revenue Funds		Budgeted Debt Service Funds		Budgeted Capital Projects Funds		Total (MEMORANDUM ONLY)		
Actual on Budgetary Basis	Budget	Actual on Budgetary Basis	Budget	Actual on Budgetary Basis	Budget	Actual on Budgetary Basis	Budget	Variance Favorable (Unfavorable)
\$ 9,470	\$ 9,542	\$ 2,266	\$ 2,179	\$ ---	\$ ---	\$ 124,208	\$ 125,565	\$ (1,357)
79,719	77,456	---	---	900	900	229,210	227,388	1,822
531	553	---	---	---	---	26,351	26,171	180
---	---	---	---	5	---	16,907	18,189	(2,282)
11,405	10,705	159	94	80	---	35,513	34,441	1,072
---	---	---	---	4,278	8,267	4,818	8,377	(3,559)
4,313	4,754	---	---	5,426	6,744	52,583	52,856	(263)
2	---	---	---	3	---	5	---	5
289	83	---	---	---	---	68,724	69,506	(782)
439	447	---	---	7,860	7,808	11,435	9,826	1,609
10	1,547	---	---	---	---	10	1,547	(1,537)
<u>106,178</u>	<u>105,067</u>	<u>2,425</u>	<u>2,273</u>	<u>18,552</u>	<u>23,519</u>	<u>569,774</u>	<u>574,866</u>	<u>(5,092)</u>
332	376	6	---	38	92	77,943	83,509	5,566
(987)	(669)	---	---	---	---	251,017	252,593	1,576
---	---	---	---	---	---	17,152	17,889	537
36,450	40,341	---	---	---	---	80,432	86,437	6,005
27,612	29,956	---	---	---	---	90,178	94,172	3,994
1,040	1,510	---	---	(13)	365	23,552	25,122	1,570
4,539	5,102	---	---	---	---	4,539	5,102	563
9	9	---	---	---	---	9	9	---
---	---	---	---	---	---	493	509	16
---	1,479	---	---	---	---	2,057	4,123	2,066
13,492	26,892	---	---	23,050	34,314	36,542	61,206	24,664
---	---	1,395	1,395	---	---	1,395	1,395	---
---	---	2,152	2,152	---	---	2,152	2,152	---
<u>82,487</u>	<u>104,996</u>	<u>3,553</u>	<u>3,547</u>	<u>23,075</u>	<u>34,771</u>	<u>587,461</u>	<u>634,018</u>	<u>46,557</u>
<u>23,891</u>	<u>91</u>	<u>(1,128)</u>	<u>(1,274)</u>	<u>(4,523)</u>	<u>(11,252)</u>	<u>(17,687)</u>	<u>(59,152)</u>	<u>41,465</u>
---	---	---	---	---	---	7,481	6,899	582
15,863	14,902	1,069	1,069	831	562	47,902	49,447	(1,545)
(3,116)	(3,116)	---	---	---	---	(8,037)	(8,037)	---
(47,565)	(50,475)	(8)	---	(5,999)	(6,056)	(56,001)	(58,960)	2,959
(4,688)	(5,237)	---	---	---	---	(4,688)	(5,237)	549
<u>(39,486)</u>	<u>(43,926)</u>	<u>1,061</u>	<u>1,069</u>	<u>(5,168)</u>	<u>(5,494)</u>	<u>(13,343)</u>	<u>(15,888)</u>	<u>2,545</u>
(15,795)	(43,835)	(67)	(205)	(9,691)	(16,746)	(31,030)	(75,040)	44,010
21,910	21,922	---	---	899	899	30,138	30,150	(12)
---	---	---	---	(4)	(4)	1,059	1,059	---
16,040	16,040	---	---	3,507	3,507	28,034	28,034	---
---	---	2,880	2,871	---	---	2,880	2,871	9
---	---	(2,813)	(2,666)	---	---	(2,813)	(2,666)	(147)
13,464	13,464	---	---	12,787	12,787	29,210	29,210	---
(14,432)	---	---	---	(6,533)	---	(23,836)	---	(23,836)
<u>\$ 21,187</u>	<u>\$ 7,591</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ 965</u>	<u>\$ 443</u>	<u>\$ 33,642</u>	<u>\$ 13,618</u>	<u>\$ 20,024</u>

# THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

## COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS/FUND BALANCES - ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS Year Ended June 30, 1995 (In Thousands)

	Proprietary Fund Types	
	Enterprise	Internal Service
<b>OPERATING REVENUES</b>		
Earnings on Investments .....	\$ ----	\$ ----
Sale of Water .....	131,990	----
Charges for Services .....	224,766	21,239
Contributions .....	----	36,681
Revenue from Use of Property .....	1,920	3
Usage Fees .....	51,941	21,223
Other .....	1,767	873
<b>TOTAL OPERATING REVENUES</b> .....	<b>412,384</b>	<b>80,019</b>
<b>OPERATING EXPENSES</b>		
Benefit and Claim Payments .....	----	37,876
Maintenance and Operations .....	185,996	19,844
Cost of Materials Issued .....	187	13,773
Cost of Water Purchased .....	57,764	----
Taxes .....	4,130	----
Administration .....	79,221	8,019
Depreciation and Amortization .....	24,489	5,974
Other .....	----	----
<b>TOTAL OPERATING EXPENSES</b> .....	<b>351,787</b>	<b>85,486</b>
<b>OPERATING INCOME</b> .....	<b>60,597</b>	<b>(5,467)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Earnings on Investments .....	29,475	229
Federal Grant Assistance .....	(4)	----
Other Agency Grant Assistance .....	2,253	----
Bond Interest Payments .....	(12,836)	----
Cost of Issuance of Long - Term Debt .....	(232)	----
Gain (Loss) on Sale/Retirement of Fixed Assets .....	(32,977)	140
Other .....	(2,552)	347
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b> .....	<b>(16,871)</b>	<b>716</b>
<b>INCOME BEFORE OPERATING TRANSFERS</b> .....	<b>43,726</b>	<b>(4,751)</b>
Operating Transfers In .....	808	488
Transfers from Governmental Funds .....	----	11,236
Operating Transfers Out .....	(500)	(796)
Transfers to Governmental Funds .....	(1,414)	(743)
<b>NET INCOME (LOSS)</b> .....	<b>42,620</b>	<b>5,434</b>
Retained Earnings (Deficit)/Fund Balances at Beginning of Year .....	806,695	(821)
<b>RETAINED EARNINGS (DEFICIT)/FUND BALANCES AT END OF YEAR</b> .....	<b>\$ 849,315</b>	<b>\$ 4,613</b>

The accompanying notes are an integral part of the financial statements.

# THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

Fiduciary Fund Types		Total
Pension Trust	Nonspendable Trust	(Memorandum Only)
\$ 125,844	\$ 670	\$ 126,514
---	---	131,890
156	44	246,205
89,672	284	128,637
---	---	1,923
---	---	73,164
---	---	2,640
215,672	998	709,073
84,943	---	122,819
---	---	205,840
---	---	13,960
---	---	57,764
---	---	4,130
7,177	---	94,417
---	---	30,463
---	4	4
92,120	4	529,397
123,552	994	179,676
---	---	29,704
---	---	(4)
---	---	2,255
---	---	(12,836)
---	---	(232)
---	---	(32,837)
---	---	(2,205)
---	---	(16,155)
123,552	994	163,521
---	---	1,296
---	---	11,236
---	---	(1,296)
---	(323)	(2,480)
123,552	671	172,277
1,397,998	4,685	2,208,557
\$ 1,521,550	\$ 5,356	\$ 2,380,834

# THE CITY OF SAN DIEGO ANNUAL FINANCIAL REPORT

## COMBINED STATEMENT OF CASH FLOWS INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND Year Ended June 30, 1995 ( In Thousands )

	Proprietary Fund Type	
	Enterprise	Internal Service
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Operating Income (Loss) .....	\$ 60,597	\$ (5,467)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:		
Earnings on Investments Included in Operating Income .....	---	---
Reverse Repurchase Agreement Expense Included in Operating Income .....	---	---
Depreciation and Amortization .....	24,489	5,974
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables:		
Accounts and Special Assessments - Net .....	(17,002)	(178)
Claims - Net .....	---	(5)
From Other Funds .....	503	---
(Increase) Decrease in Inventories .....	815	(235)
(Increase) Decrease in Prepaid and Reimbursable Items and Deposits .....	(390)	(500)
Increase (Decrease) in Accounts Payable .....	26,887	1,294
Increase (Decrease) in Accrued Wages and Benefits .....	(2,039)	(544)
Increase (Decrease) in Other Accrued Liabilities .....	252	---
Increase (Decrease) in Liability Claims .....	5,180	(154)
Increase (Decrease) in Due to Other Funds .....	(521)	---
Increase (Decrease) in Due to Other Agencies .....	(1)	---
Increase (Decrease) in Deferred Revenue .....	5,835	108
Increase (Decrease) in Estimated Landfill Closure and Postclosure Care .....	(576)	---
Other Nonoperating Revenue .....	1,785	383
<b>NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES .....</b>	<b>105,814</b>	<b>676</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Operating Transfers In .....	808	488
Transfers from Governmental Funds .....	---	11,236
Operating Transfers Out .....	(500)	(796)
Transfers to Governmental Funds .....	(1,414)	(743)
Federal Grants Received .....	5	---
Operating Grants Received .....	(1,619)	---
Other Nonoperating Revenue .....	245	---
Proceeds from Advances and Deposits .....	(766)	---
Payments for Advances and Deposits .....	(1,785)	(1,481)
<b>NET CASH PROVIDED BY (USED FOR) NONCAPITAL FINANCING ACTIVITIES .....</b>	<b>(5,026)</b>	<b>8,704</b>

The accompanying notes are an integral part of the financial statements.



<u>Fiduciary Fund Type</u>	<u>Total</u>
<u>Nonexpendable Trust</u>	<u>(Memorandum Only)</u>
\$ 994	\$ 56,124
(670)	(670)
4	4
---	30,463
3	(17,177)
---	(5)
---	503
---	580
---	(890)
---	28,181
---	(2,583)
---	252
---	5,026
---	(521)
---	(1)
(3)	5,940
---	(576)
---	2,168
<u>328</u>	<u>106,818</u>
---	1,296
---	11,236
---	(1,296)
(323)	(2,480)
---	5
---	(1,619)
---	245
---	(766)
---	(3,266)
<u>(323)</u>	<u>3,355</u>

Continued on next page

**COMBINED STATEMENT OF CASH FLOWS**  
**INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**  
**ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND**  
**Year Ended June 30, 1995**  
**( In Thousands )**

	Proprietary Fund Type	
	Enterprise	Internal Service
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Proceeds from Issuance of Long-Term Debt .....	\$ 55,135	\$ ---
Proceeds from Contributed Capital .....	53,574	---
Return of Contributed Capital .....	(1,025)	---
Acquisition of Fixed Assets .....	(260,154)	(6,128)
Proceeds from the Sale of Fixed Assets .....	447	507
Principal Payment on Capital Lease .....	(108)	---
Principal Paid on Long-Term Debt .....	(7,615)	---
Interest Paid on Long-Term Debt .....	(11,413)	---
NET CASH PROVIDED BY (USED FOR)		
CAPITAL AND RELATED FINANCING ACTIVITIES .....	(171,159)	(5,621)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase (Decrease) in Obligations Under		
Reverse Repurchase Agreements .....	(19,947)	(581)
Purchase of Investments .....	837	---
(Increase) /Decrease in Accrued Interest Receivable .....	---	---
Interest and Dividends Received on Investments .....	28,545	227
Net Change of Assets and Liabilities:		
Increase (Decrease) Reverse Repurchase Agreement Interest Paid .....	(4,581)	(36)
NET CASH PROVIDED BY (USED FOR)		
INVESTING ACTIVITIES .....	4,854	(390)
Net Increase (Decrease) in Cash and Cash Equivalents .....	(65,517)	3,369
Cash and Cash Equivalents at Beginning of Year .....	587,220	44,310
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR .....</b>	<b>\$ 521,703</b>	<b>\$ 47,679</b>

The accompanying notes are an integral part of the financial statements.

<u>Fiduciary Fund Type</u>	<u>Total</u>
<u>Nonexpendable Trust</u>	<u>(Memorandum Only)</u>
\$ ----	\$ 55,135
----	53,574
----	(1,025)
----	(266,282)
----	954
----	(108)
----	(7,615)
----	(11,413)
-----	-----
-----	(176,780)
(123)	(20,651)
(537)	300
(5)	(5)
670	29,442
(4)	(4,621)
-----	-----
1	4,465
6	(62,142)
-----	-----
1,310	632,840
-----	-----
\$ 1,316	\$ 570,698

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 1995

## 1. SUMMARY OF SIGNIFICANT POLICIES

The City of San Diego (the "City") adopted its charter on April 7, 1931 and operates as a municipality in accordance with State laws. The City is governed by an elected nine member City Council, including the Mayor. Residents of the City are provided with a wide range of services including parks, recreation, police, fire, water and sewer services.

The accounting policies of the City conform to generally accepted accounting principles ("GAAP") as applicable to governmental units. The following is a summary of the more significant of such policies:

A. Scope of Financial Reporting Entity

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable.

Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Component units should be included in the reporting entity financial statements using the blending method if either of the following criteria are met:

- a. The component unit's governing body is substantively the same as the governing body of the primary government (the City).
- b. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it.

Included within the reporting entity as blended component units:

- City of San Diego Metropolitan Transit Development Board Authority (a joint-powers agency)
- Public Facilities Financing Authority
- San Diego Data Processing Corporation
- San Diego Facilities and Equipment Leasing Corporation
- San Diego Housing Authority
- San Diego Industrial Development Authority
- San Diego Open Space Park Facilities District #1
- San Diego Planetarium Authority (a joint-powers agency)
- San Diego Stadium Authority (a joint-powers agency)
- Redevelopment Agency of the City of San Diego

## 1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

- Centre City Development Corporation
- Mid-City Development Corporation
- San Ysidro Revitalization Project
- Southeast Economic Development Corporation

A brief description of each blended component unit follows:

- City of San Diego Metropolitan Transit Development Board Authority was established in 1988 by a joint exercise of powers agreement between the City and the San Diego Metropolitan Development Board. The City of San Diego Metropolitan Transit Development Board Authority was created to acquire, construct, maintain, repair, manage, operate and control facilities, to provide public capital improvements including public mass transit guideways, public transit systems and related transportation facilities primarily benefiting the City. The City appoints two Councilmembers to the Governing Board and the San Diego Metropolitan Development Board appoints one. The Authority provides services almost entirely to the City.
- The Public Facilities Financing Authority was established in 1988 by a joint exercise of powers agreement between the City and the Redevelopment Agency of the City of San Diego to acquire, construct, maintain, repair, manage, operate and control facilities for public capital improvements. The Authority provides services exclusively to the City.
- San Diego Data Processing Corporation was formed in 1979 as a not-for-profit public benefit corporation for the purpose of providing data processing services to public agencies, primarily the City, which is the sole member. The San Diego Data Processing Corporation's budget and Governing Board are approved by the City Council and it provides services almost exclusively to the City.
- The San Diego Facilities and Equipment Leasing Corporation is a not-for-profit public benefit corporation established in 1987 by the City for the purpose of acquiring and leasing to the City real and personal property to be used in the municipal operations of the City. The City Council is the Governing Board and the benefit is exclusively to the City.
- The San Diego Housing Authority is a public entity primarily serving low income families by providing rental assistance payments, rental housing loans and other housing services. The City Council is the Governing Board of the Housing Authority. The Housing Authority has established a not-for-profit corporation (the San Diego Housing Commission) to administer the operation of the Housing Authority's functions.
- The San Diego Industrial Development Authority was established in 1983 by the City for the purpose of providing an alternate method of financing to participating parties for economic development purposes. The City Council is the Governing Board and benefit is exclusively to the City.
- The San Diego Open Space Park Facilities District #1 was established in 1978 by the City for the purpose of acquiring open space properties to implement the Open Space Element of the City's General Plan. The boundaries are contiguous with the City's. The City Council is the Governing Board and the benefit is exclusively to the City.

## 1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

- The San Diego Planetarium Authority was established in 1971 by a joint exercise of powers agreement between the City and the County of San Diego. The San Diego Planetarium Authority was created to construct a planetarium through the issue of revenue bonds. Ownership of all assets will revert to the City when the bonds are paid in full. Operation, management and funding of the planetarium is provided by the City. The Governing Board is appointed by the City Council. The San Diego Planetarium Authority almost exclusively benefits the City.
- The San Diego Stadium Authority was established by a joint exercise of powers agreement between the City and the County of San Diego to construct the Jack Murphy Stadium through the issuance of revenue bonds. Ownership of all assets will revert to the City when the bonds are paid in full. Operation, management and funding of the stadium is provided by the City. The Governing Board is appointed by the City Council. The San Diego Stadium Authority almost exclusively benefits the City.
- The Redevelopment Agency of the City of San Diego was established by the City in 1958 in order to provide a method for revitalizing deteriorating and blighted areas of the City and began functioning in 1969 under the authority granted by the community redevelopment law. The City Council is the Governing Board and the Redevelopment Agency of the City of San Diego provides services exclusively to the City.
- Centre City Development Corporation, Inc. is a not-for-profit public benefit corporation organized in 1975 by the City to administer certain redevelopment projects in downtown San Diego and to provide redevelopment advisory services to the Redevelopment Agency of the City of San Diego. Centre City Development Corporation's budget and Governing Board are approved by the City Council and it provides services exclusively to the City.
- Mid-City Development Corporation is a not-for-profit public benefit corporation organized in 1992 by the City to administer certain redevelopment projects in the mid-city area of San Diego and to provide redevelopment advisory services to the Redevelopment Agency of the City of San Diego. The Mid-City Development Corporation's budget and Governing Board are approved by the City Council and it provides services exclusively to the City.
- San Ysidro Revitalization Project, Inc. is a not-for-profit public benefit corporation organized in 1989 by the City to administer certain redevelopment projects in the San Ysidro/Mexican border area of San Diego and to provide redevelopment advisory services to the Redevelopment Agency of the City of San Diego. The San Ysidro Revitalization Project's budget and Governing Board are approved by the City Council and services are provided exclusively to the City. In September 1994, however, the Corporation was dissolved by the City Council. All assets and liabilities were then transferred to the City.
- Southeast Economic Development Corporation, Inc. is a not-for-profit public benefit corporation organized in 1980 by the City to administer certain redevelopment projects in southeast San Diego and to provide redevelopment advisory services to the Redevelopment Agency of the City of San Diego. Southeast Economic Development Corporation's budget and Governing Board are approved by the City Council and services are provided exclusively to the City.

## 1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

Discretely presented component units, also legally separate entities, have financial data reported in a separate column from the financial data of the primary government to demonstrate it is financially and legally separate from the primary government. Component units should be discretely presented in the reporting entity financial statements when neither of the above two criteria are met.

Included within the reporting entity as discretely presented component units:

- San Diego Convention Center Corporation ("SDCCC")

SDCCC is a non-profit public benefit corporation originally organized to market, operate and maintain the San Diego Convention Center. On July 1, 1993, SDCCC assumed similar responsibility for the San Diego Concourse as well. It is managed by a nine member board, none of whom are members of the City Council. The City is liable for any operating deficits and would be secondarily liable for any debt issuances of SDCCC (currently, there is no debt outstanding). SDCCC is discretely presented because it provides services direct to the citizenry.

Complete financial statements for each of the individual component units may be obtained from the City Auditor and Comptroller's office.

Each blended and discretely presented component unit has a June 30 year end.

## B Basis of Presentation

The accounts of the City are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance/retained earnings, revenues and expenditures/expenses. The various funds are summarized by type in the financial statements. The following fund types and account groups are used by the City:

GOVERNMENTAL FUND TYPES

Governmental Fund Types are those through which most governmental functions of the City are financed. The acquisition, use, and balances of the City's expendable financial resources and the related liabilities (except those accounted for in Proprietary Fund Types) are accounted for through Governmental Fund Types. The measurement focus is upon determination of financial position and changes in financial position, rather than upon net income determination. The following are the City's Governmental Fund Types:

General Fund - The General Fund is the general operating fund of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than those for expendable trusts or for major capital projects) that are legally restricted to expenditures for specific purposes.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

## 1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

**Capital Projects Funds** - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Fund Types and certain trust funds).

**PROPRIETARY FUND TYPES**

Proprietary Fund Types are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector and are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City applies all applicable FASB pronouncements in accounting and reporting for its proprietary operations. The measurement focus is upon determination of net income, financial position and changes in financial position. The following are the City's Proprietary Fund Types:

**Enterprise Funds** - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

**Internal Service Funds** - Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governmental units, on a cost-reimbursement basis.

**FIDUCIARY FUND TYPES**

Fiduciary Fund Types are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds:

**Trust and Agency Funds** - Trust and Agency Funds include Expendable, Nonexpendable, Pension Trust and Agency Funds. Nonexpendable and Pension Trust Funds are accounted for and reported in the same manner as Proprietary Fund Types since capital maintenance is critical. Expendable Trust and Agency Funds are accounted for and reported similar to Governmental Fund Types.

**ACCOUNT GROUPS**

Account Groups are used to establish accounting control and accountability for the City's general fixed assets and general long-term debt. The following are the City's account groups:

**General Fixed Assets Account Group** - This account group is established to account for all fixed assets of the City, other than those accounted for in the Proprietary Fund Types.

**General Long-Term Debt Account Group** - This account group is established to account for all long-term debt of the City, except for that accounted for in the Proprietary Fund Types.

## 1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

**C. Basis of Accounting**

Governmental Fund Types, Expendable Trust and Agency Funds:

The modified accrual basis of accounting is followed in the Governmental Fund Types, Expendable Trust and Agency Funds. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues which are considered susceptible to accrual include real and personal property taxes, other local taxes, refuse collection business licenses, fines, forfeitures and penalties, motor vehicle license fees, interest and state and federal grants and subventures. In applying the susceptible to accrual concept to state and federal revenues, the legal and contractual requirements of the numerous individual programs are used as guidance.

Licenses and permits (except refuse collection business licenses), charges for services, and miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received.

Expenditures are recognized when the related fund liability is incurred except for (1) principal and interest of general long-term debt which are recognized when due; and (2) employee annual leave and claims and judgments from litigation and self-insurance which are recorded in the period due and payable since such amounts will not currently be liquidated with expendable available financial resources. The total future liability is reflected in the General Long-term Debt Account Group.

The SDCCC, a discretely presented component unit, is accounted for under the modified accrual basis of accounting.

Proprietary Fund Types, Pension Trust and Nonexpendable Trust Funds:

The accrual basis of accounting is used in all Proprietary Fund Types, Pension Trust and Nonexpendable Trust Funds. Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recorded when incurred. Estimated unbilled revenues from the Water and Sewerage Utility (Enterprise) Funds are recognized at the end of each fiscal year. This estimated amount is based on billings during the month following the close of the fiscal year.

The City reports deferred revenue on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the City before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

**D. Property Taxes**

The County of San Diego (the "County") bills and collects property taxes on behalf of numerous special districts and incorporated cities, including the City. The City's collection of current year's taxes are received through periodic apportionments from the County.

## 1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

The County's tax calendar is from July 1 to June 30. Property taxes attach as a lien on property on March 1. Taxes are levied on July 1 and are payable in two equal installments on November 1 and February 1, and become delinquent after December 10 and April 10, respectively.

Since the passage of California's Proposition 13, beginning with fiscal year 1978-79 general property taxes are based either on a flat 1% rate applied to the 1975-76 full value of the property or on 1% of the sales price of any property sold or of the cost of any new construction after the 1975-76 valuation. Taxable values on properties (exclusive of increases related to sales and new construction) can rise at a maximum of 2% per year.

This Proposition 13 limitation on general property taxes does not apply to taxes levied to pay the debt service on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13).

Property tax revenue is recognized in the fiscal year for which the taxes have been levied, provided the taxes are received within 60 days of the end of the fiscal year. Property taxes received after this date are not considered available as a resource that can be used to finance the current year operations of the City and, therefore, are not recorded as revenue until collected.

The City provides an allowance for uncollected property taxes of 3% of the outstanding balance which is reflective of historical collections.

E. Budgetary Data

## General Budget Policies

On or before the first meeting in May of each year the City Manager submits to the City Council a proposed operating and capital improvements budget for the fiscal year commencing July 1. Such budget includes annual budgets for the following funds:

## General Fund

## Special Revenue Funds:

Centre City Development Corporation  
Mid-City Development Corporation  
San Diego Convention Center Corporation  
Southeast Economic Development Corporation

## City of San Diego Oversight Unit:

Acquisition, Improvement and Operation

## Environmental Growth Funds:

Two-Thirds Requirement  
One-Third Requirement  
Police Decentralization  
Public Transportation  
San Diego Jack Murphy Stadium Acquisition  
San Diego Jack Murphy Stadium Operations  
Special Gas Tax Street Improvement  
Transient Occupancy Tax  
Zoological Exhibits

## 1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

## Debt Service Funds:

City of San Diego Oversight Unit:  
General Obligation Bond Funds:  
Pre-Arrestment Detention Facility  
Public Safety Communications Project Bonds  
Other General Obligation Bonds

## Capital Projects Funds:

City of San Diego Oversight Unit:  
Capital Outlay

Public hearings are then conducted to obtain citizen comments on the proposed budget. During the month of July the budget is legally adopted through passage of an appropriation ordinance by the City Council.

The City budget is prepared on the modified accrual basis of accounting except that (1) encumbrances outstanding at year-end are considered as expenditures and (2) the increase/decrease in reserve for advances and deposits to other funds and agencies are considered as additions/deductions of expenditures. Budgets for entities over which the City exercises oversight responsibility (component units) are prepared on the modified accrual basis of accounting plus the recognition of encumbrances outstanding at year-end as expenditures.

The City budget is prepared net of obligations under reverse repurchase agreement interest expense. For budgetary purposes, obligations under reverse repurchase agreement interest expense is considered a reduction of interest earnings.

Budgetary control for the City's General Fund is exercised at the payroll and other expenditures level. Budgetary control for the other budgeted funds, including those of certain component units, is maintained at the total fund appropriation level. All amendments to the adopted budget require City Council approval. However, the City Auditor and Comptroller, as directed by the Financial Management Department, is authorized during the year to transfer amounts not exceeding \$25,000 between departments within the General Fund.

Reported budget figures are as originally adopted or subsequently amended by the City Council plus prior year continuing appropriations. Such budget amendments during the year, including those related to supplemental appropriations, did not cause these reported budget amounts to be significantly different than the originally adopted budget amounts. Appropriations lapse at year-end to the extent that they have not been expended or encumbered.

## 1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

The following is a reconciliation of the excess (deficiency) of revenues over expenditures prepared on the GAAP basis to that prepared on the budgetary basis (in thousands):

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds
Excess (Deficiency) of Revenues and Other Financing Sources over Expenditures and Other Financing Uses - GAAP Basis	\$(4,893)	\$(1,595)	\$3,552	\$(88,169)
Add (Deduct) - (Excess) Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses - GAAP Basis for Non-Budgeted Funds	0	5,608	(3,619)	87,097
Budgeted Funds:				
Deduct:				
Encumbrances Outstanding, June 30, 1995	(5,323)	(18,237)	0	(8,489)
Reserved for Advances and Deposits, June 30, 1995	(11,330)	(3,254)	0	(130)
Add - Reserved for Advances and Deposits, June 30, 1994	16,069	1,683	0	0
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses - Budgetary Basis	<u>\$ (5,477)</u>	<u>\$ (15,795)</u>	<u>\$ ( 67)</u>	<u>\$ (9,691)</u>

F. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the budgeted Governmental Fund Types.

Encumbrances outstanding at year-end are reported as reservations of fund balances since the commitments will be honored through subsequent years' continuing appropriations. Encumbrances do not constitute expenditures or liabilities for GAAP reporting purposes.

G. Investments

Investments are stated at cost or amortized cost which approximates market. Gains or losses on investments are recognized upon sale of the investments. Investments in the Deferred Compensation Plan Agency Fund are recorded at market value. See Note 8 for more information on the Deferred Compensation Plan.

## 1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

H. Inventories

Inventories, which consist of both water in storage and operating supplies, are valued at the lower of cost or market. Such inventories are expensed when consumed.

I. Restricted Assets

Proceeds from debt issuances, funds set aside for payment of Enterprise Fund revenue bonds and San Diego Housing Authority deposits servicing low interest construction and rehabilitation loans made by various banks are classified as restricted assets since their use is limited by applicable bond indentures.

J. Fixed Assets

## General Fixed Assets:

General fixed assets are those acquired for general governmental purposes. Assets purchased are recorded as expenditures in the Governmental Fund Types and capitalized at cost in the General Fixed Assets Account Group. Donated fixed assets are recorded in general fixed assets at estimated fair market value at the time received. Certain assets for which actual costs are not practically determined have been valued on the basis of a professional valuation which determined their estimated historical cost.

Fixed assets comprising the infrastructure of the City, including roads, bridges, pools, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, have not been capitalized. Such infrastructure assets normally are immovable and of value only to the City. Therefore, the purpose of stewardship and cumulative accountability for capital expenditures is satisfied without recording these assets.

No depreciation has been provided on general fixed assets

## Proprietary Fund Type Fixed Assets:

Fixed assets owned by the Proprietary Fund Types are stated at cost if purchased or constructed, or at estimated fair market value if received as a donation. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Structures and improvements	30-40 years
Plants, dams, canals, laterals and equipment	5-150 years

K. Interagency Current Receivables, Payables and Long-Term Debt

For reporting purposes, the City considers interagency long-term loans to be operating transfers. Accordingly, "loans receivable" are classified as "transfers out" while "loans payable" are classified as "transfers in". Interest on loans are recorded only when due. Loan amounts, including interest, are noted in the footnotes to this report. When loans are repaid, such transactions are also recorded as "transfers out" (typically from the Debt Service Fund) and "transfers in," and the loan balance is reduced in the footnotes. Interagency current receivables and payables are classified as accounts "receivable from" and "due to" other funds (See Note 6)



## 1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

L. Long-term Liabilities

Long-term liabilities expected to be financed in future years from Governmental Fund Types are accounted for in the General Long-Term Debt Account Group. Long-term liabilities of all Proprietary Fund Types are accounted for in their respective funds.

M. Employee Annual Leave

The City provides combined annual leave to cover both vacation and sick leave. It is the City's policy to permit employees to accumulate between 6.25 weeks and 17.5 weeks, depending on hire date, of earned but unused annual leave. Accumulation of these earnings will be paid to employees upon separation from service.

In addition, sick leave earned through August 1981 by employees hired prior to July 1, 1975 is payable upon separation under the following conditions: (1) 50% of the employee's accrued amount upon retirement or death, or (2) 25% of the employee's accrued amount upon resignation.

In Governmental Fund Types and Expendable Trust Funds, the costs for annual leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported in the general long-term debt account group. No expenditure is reported for these amounts. In Proprietary Fund Types, annual leave benefits are recorded as a liability in the period earned.

N. Claims and Judgments

In Governmental Fund Types, the costs of claims and judgments are recorded as expenditures when payments are made. The liability for anticipated future claims is recorded in the General Long-Term Debt Account Group in recognition of the City's obligation to fund such costs from future operations. In Proprietary Fund Types, the costs of claims and judgments are recorded when the liability is incurred and measurable.

O. Fund Equity

Portions of fund equity have been reserved for specific purposes. Reservations were created to either (1) satisfy legal covenants that require a portion of the fund balance to be segregated or (2) identify the portion of the fund balance that is not appropriate for future expenditures.

Designated fund balance indicates that portion of fund equity for which the City has made tentative plans.

Undesignated fund balance indicates that portion of fund equity which is available for appropriation in future periods.

## 1. SUMMARY OF SIGNIFICANT POLICIES (Continued)

P. Statement of Cash Flows

All of the related City's restricted and unrestricted "Cash or Equity in Pooled Cash and Investments" and "Cash with Custodian/Fiscal Agent" are classified as cash and cash equivalents, since they are readily convertible to known amounts of cash or so near to their maturity that they present insignificant risk of changes in value because of changes in interest rates.

Q. Memorandum Only - Total Columns on Combined Statements

Amounts in the "Total - Memorandum Only" columns in the combined financial statements are presented to aggregate financial data. The total includes fund types and account groups that use different bases of accounting and the captions "Amount Available for Payment of General Long-Term Debt" and "Amount to be Provided for Retirement of Long-Term Debt" which are not assets in the usual sense. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles, nor is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

R. Comparative Data

Comparative total data for the prior year have been presented in the accompanying combining financial statements in order to provide an understanding of changes in the City's financial position and operations. However, comparative data have not been presented in the combined statements because their inclusion would make certain statements unduly complex and difficult to understand.

## 2. CASH AND INVESTMENTS

As provided for by the Government Code, the cash balance of substantially all funds are pooled and invested by the City Treasurer for the purpose of increasing interest earnings through investment activities. The respective funds' shares of the total pooled cash and investments are included in the accompanying combined balance sheet under the caption "Cash or Equity in Pooled Cash and Investments." Interest earned on pooled investments is deposited to certain of the participating funds based upon each fund's average daily deposit balance during the allocation period with all remaining interest deposited to the General Fund.

"Cash With Custodian/Fiscal Agent" represents funds held by bank trustees on behalf of the City and its component units. For several component units, the purpose of these accounts is to invest cash related to certain outstanding long-term debts and to distribute principal and interest payments to debtholders. For other component units and the City, the purpose of these accounts is solely to distribute principal and interest payments to debtholders.

"Investments at Cost" in the combined balance sheet represent Pension Trust Fund investments, deferred compensation investments, and various special revenue, debt service, capital projects and miscellaneous trust fund investments.

## 2. CASH AND INVESTMENTS (Continued)

Aggregate cash or equity in pooled cash and investments, cash with custodian/fiscal agent, investments at cost, and restricted pooled cash and investments are as follows at June 30, 1995 (in thousands):

	Total
Cash or equity in pooled cash and investments	\$1,281,137
Cash with custodian/fiscal agent, including restricted cash with custodian	29,092
Investments at cost	1,429,220
Restricted pooled cash and investments	14,976
Total	<u>\$2,754,425</u>

Deposits

At June 30, 1995, the carrying amount of the City's cash or equity in pooled cash deposits (cash, non-negotiable certificates of deposit and money market funds) was approximately \$44,715,000 and the net balance per various financial institutions was approximately \$59,458,000, the difference of which is substantially due to deposits in transit and outstanding checks. Of the balance in financial institutions, approximately \$683,000 was covered by federal depository insurance and approximately \$64,995,000 was uninsured. Such uninsured deposits are with financial institutions which are individually legally required to have government deposits collateralized with government securities held by the pledging financial institution's trust departments in the government's name. The market value of such pledged securities must equal at least 110% of the government's deposits.

At June 30, 1995, "Cash with Custodian/Fiscal Agent" (approximately \$29,093,000) was held by the trust departments of various banks and was not covered by federal depository insurance or collateralized by securities owned by the bank.

Deposits - SDCCC

On June 30, 1995, the carrying amount of SDCCC's cash deposits was \$2,612,888 and the bank balance was \$3,407,287. Of the bank balance, \$100,000 was covered by federal depository insurance. The remainder was covered by collateral held by financial institutions which are individually required by state law to have governmental deposits collateralized at a rate of 110% of the deposit. The collateral is considered to be held in the name of SDCCC.

At the end of each business day, all balances over a target balance are automatically transferred and invested in a taxable money market mutual fund which invests in a portfolio of high-quality, short-term securities consistent with SDCCC's investment policy. These invested funds are not insured or guaranteed by the FDIC or the U.S. Government, are not obligations of the bank, and are not guaranteed by the bank.

## 2. CASH AND INVESTMENTS (Continued)

Investments

In accordance with the charter of the City of San Diego and under authority granted by the City Council, the City Treasurer is responsible for investing the unexpended cash in the City treasury. This investment policy applies to all of the investment activities of the City, except for the Pension Trust Funds (for which policies are noted below), the proceeds of certain debt issues which are managed and invested by trustees appointed under indenture agreements and the assets of trust funds which are placed in the custody of the Funds Commission by Council ordinance. All financial assets of all other funds are administered in accordance with the provisions noted here.

The City may transact business only with banks, savings and loans, and investment securities dealers who are primary dealers regularly reporting to the New York Federal Reserve Bank. Exceptions to this rule can be made only upon written authorization of the City Treasurer. Authorized cash deposits and investments are governed by state law, as well as by the City's own written investment policy. Within the context of these limitations, permissible investments include (1) obligations of the U.S. government and federal agencies, (2) commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, (3) bankers' acceptances, (4) negotiable and/or non-negotiable certificates of deposit and non-negotiable time deposits issued by a nationally or state chartered bank or a state or federal savings and loan association, (5) repurchase and reverse repurchase agreements, (6) the local agency investment fund established by the state treasurer, (7) financial futures contracts in any of the other authorized investments which are used to offset an existing financial position and not for outright speculation, (8) mortgage securities purchased under an agreement to resell, (9) medium-term corporate notes of a maximum of five years maturity issued by corporations operating within the United States and (10) shares of beneficial interest issued by diversified management companies, as defined in Section 23701m of the Revenue and Taxation Code.

All non-negotiable time certificates of deposit are to be fully collateralized with mortgages or eligible securities in accordance with state law.

The City, through its Investment Policy, has identified the safety of principal as the foremost objective of the City. Each investment transaction shall seek to ensure that capital losses are avoided, whether from securities default, broker-dealer default, or erosion of market value. The City shall seek to preserve principal by mitigating the two types of risk, credit risk and market risk.

Credit Risk shall be mitigated by investing in only very safe securities and by diversifying the investment portfolio so that failure of any one issuer would not unduly harm the City's cash flow.

Market Risk shall be mitigated by limiting the average maturity of the City's portfolio to three years and the maximum maturity of any one security in the portfolio to five years, and by structuring the portfolio with an adequate mix of highly liquid securities and maturities to meet major cash outflow requirements. Trading is prohibited when cash or securities are not available to pay for the securities being purchased. The taking of short positions, that is, selling securities which the City does not own, is also prohibited. It is explicitly recognized herein, however, that in a diversified portfolio, occasional measured losses are inevitable, and must be considered within the context of the overall investment return.

## 2. CASH AND INVESTMENTS (Continued)

The following investments below are additionally restricted as to percentage of the cost value of the portfolio in any one issuer name up to a maximum of 5%. The total cost value invested in any one issuer name will not exceed 5% of an issuer's net worth. An additional 5%, or a total of 10%, of the cost value of the portfolio in any one issuer name can be authorized upon written approval of the City Treasurer.

- Bankers Acceptances
- Commercial Paper
- Negotiable Certificates of Deposit
- Repurchase Agreements
- Reverse Repurchase Agreements
- Local Agency Investment Fund

Ineligible Investments not described in the City's Investment Policy, including, but not limited to, common stocks and long-term corporate notes/bonds are prohibited from use in the portfolio. A copy of the City's Investment Policy may be obtained from the City Treasurer's office.

Investments for the Pension Trust Fund are authorized to be made by the Board of Administration of the City Employees' Retirement System in accordance with the charter of the City. The Board is authorized to invest in any bonds or securities which are allowed by general law for savings banks. The Board has further restricted the authorized investments to those believed by independent investment counsel to be appropriate for investment by trust funds operating under the "prudent man" rule as set forth in state law. These investments include, but are not limited to, bonds, notes or other obligations, real estate investments, common stocks, preferred stocks and pooled vehicles. Investments can also be made in financial futures contracts in any of the other authorized investments which are used to offset an existing financial position and not for outright speculation.

Investment policies permit the Pension Trust Fund to invest in financial futures contracts. Financial futures contracts, which are recorded at market value, are not hedges of existing assets, and changes in the market value of the contract result in recognition of a gain or loss.

A copy of the Pension Trust Fund's investment policy may be obtained from the Retirement office.

Reverse Repurchase Agreements

Investment policies permit the City to enter into reverse repurchase agreements which is a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received providing the dealers a margin against a decline in the market value of the securities. If the dealers default on their obligations to resell these securities to the City or provide securities of cash or equal value, the City could suffer an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the reverse repurchase agreement obligation, including accrued interest payable. There was no such credit exposure at year-end. Interest expense incurred under reverse repurchase agreements amounted to \$9,542,005 for the year ended June 30, 1995.

## 2. CASH AND INVESTMENTS (Continued)

The City's investments at June 30, 1995, that can be specifically identified as to credit risk are categorized as described below (in thousands):

Category 1: Insured or registered, or securities held by the City or its agent in the City's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

Investments that are not subject to credit risk categorization, but that require carrying amount and market value disclosure are also presented below (in thousands).

	Category			Carrying Amount	Market Value
	1	2	3		
U.S. government securities	\$1,194,227	\$3,767	\$ 0	\$1,197,994	\$1,202,149
Negotiable certificates of deposit	60,482	0	0	60,482	60,278
Commercial paper	122,147	0	0	122,147	123,524
Corporate notes/bonds	401,708	0	0	401,708	400,108
Common stock	571,414	0	0	571,414	683,316
Mortgage notes	11,813	0	0	11,813	12,180
Repurchase agreements	52,351	0	0	52,351	52,351
	<u>\$2,414,142</u>	<u>\$3,767</u>	<u>\$ 0</u>	<u>\$2,417,909</u>	<u>\$2,533,906</u>
Investment with California Local Agency Investment Fund				30,262	30,262
Investment held by brokers-dealers under reverse repurchase agreements					
U.S. government securities				104,048	104,048
Mutual funds				101	101
Real estate/mineral interest funds				71,948	71,948
Deferred compensation				56,350	56,350
Total investments				<u>\$2,680,618</u>	<u>\$2,796,615</u>

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**2. CASH AND INVESTMENTS (Continued)**

Included above are investments under the Pension Trust Fund - City Employees Retirement System and are as follows (in thousands):

	Category			Carrying Amount	Market Value
	1	2	3		
U.S. government securities	\$ 242,922	\$ 0	\$ 0	\$ 242,922	\$ 245,121
Negotiable certificates of deposit	0	0	0	0	0
Commercial paper	24,114	0	0	24,114	24,844
Corporate notes/bonds	320,787	0	0	320,787	318,945
Common stock	569,330	0	0	569,330	680,039
Mortgage notes	11,813	0	0	11,813	12,180
	<u>\$1,168,966</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$1,168,966</u>	<u>\$1,280,929</u>
Real estate/mineral interest funds				<u>71,948</u>	<u>71,948</u>
Total Investments				<u>\$1,240,914</u>	<u>\$1,352,877</u>

Investments are stated at cost or amortized cost, except for investments in the Deferred Compensation Plan Agency Fund which are reported at market value

Summary of Deposits and Investments

Following is a summary of the carrying amount of deposits and investments at June 30, 1995 (in thousands):

Cash and pooled cash deposits	\$ 44,715
Cash with custodian/fiscal agent	29,092
Investments	<u>2,680,618</u>
Total	<u>\$2,754,425</u>

Investments - SDCCC

SDCCC has approximately \$357,599 invested in deferred compensation which is not subject to categorization.

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**3. FIXED ASSETS**

General Fixed Assets

A summary of changes in general fixed assets for the year ended June 30, 1995 is as follows (in thousands):

	Balance July 1, 1994	Additions	Adjustments And Transfers	Deletions	Balance June 30, 1995
Land	\$306,058	\$ 19,902	\$ (355)	\$ 659	\$ 324,946
Structures and improvements	364,963	21,951	(460)	3,342	383,112
Equipment	146,667	13,514	(2,306)	7,953	149,922
Subtotal	817,688	55,367	(3,121)	11,954	857,980
Construction in progress	139,907	54,119	(7,062)	898	186,066
Total	<u>\$957,595</u>	<u>\$109,486</u>	<u>\$(10,183)</u>	<u>\$12,852</u>	<u>\$1,044,046</u>

The following is a summary of general fixed assets for SDCCC at June 30, 1995 (in thousands):

	Balance July 1, 1994	Additions	Retirements	Balance June 30, 1995
Furniture/Equipment	\$ 911	\$312	\$ 0	\$1,223
Software	164	14	0	178
Leasehold improvements	715	5	0	720
Total Fixed Assets	<u>\$1,790</u>	<u>\$331</u>	<u>\$ 0</u>	<u>\$2,121</u>

Proprietary Fund Type Fixed Assets

A summary of Proprietary Fund Type Fixed Assets at June 30, 1995 is as follows (in thousands):

	Enterprise Funds	Internal Service Funds
Land	\$ 7,465	\$ 0
Structures and improvements	17,266	0
Plants, dams, canals, laterals and equipment	1,062,644	69,535
Other	485	0
Construction in progress	<u>951,878</u>	<u>1,481</u>
Total	2,059,718	71,016
Less - Accumulated depreciation	<u>(328,813)</u>	<u>(44,381)</u>
Total, net	<u>\$ 1,730,905</u>	<u>\$ 26,635</u>

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## 3. FIXED ASSETS (Continued)

### Construction In Progress

A summary of construction in progress (CIP) at June 30, 1995 is as follows (in thousands):

General Fixed Asset Account Group:	
City	\$ 87,432
Housing Authority	60,277
MTDB Authority	<u>58,357</u>
Total General Fixed Asset Account Group	<u>186,066</u>
Enterprise Funds:	
Airports	3,312
Golf Course	4,208
Sewerage Utility	752,496
Environmental Services	33,995
Water Utility	<u>157,868</u>
Total Enterprise Funds	<u>951,877</u>
Internal Service Funds:	
Central Garage and Machine Shop	<u>1,481</u>
Total Construction in Progress	<u>\$1,139,424</u>

The Sewerage Utility Fund and Water Utility Fund CIP of \$752,495,000 and \$157,863,000, respectively, represent 79.9% of total CIP for the year ended June 30, 1995.

The Sewerage Utility's construction plans for various projects are estimated to cost approximately \$206,874,000. As of June 30, 1995, the Sewerage Utility's contractual commitments for the projects totalled approximately \$158,741,000. It is intended that the contractual commitments be financed with approved State and Federal grants and service charges.

The Water Utility's construction plans for various projects are estimated to cost approximately \$54,935,000. As of June 30, 1995, the Water Utility's contractual commitments for the projects totalled approximately \$30,809,000. It is intended that the contractual commitments be financed with reserves and service charges.

Construction commitments are authorized by City Council and have various completion dates. It is not anticipated that additional future financing will be required for projects currently in progress.

## 4. GENERAL LONG-TERM DEBT

General long-term debt consists of general obligation bonds, special assessment bonds, tax allocation bonds, contracts payable, notes payable, capital lease obligations, liability claims (also see Note 17 and Note 18 for more information on contingencies and third party debt) and accrued annual leave. A summary of these obligations as recorded in the General Long-Term Debt Account Group as of June 30, 1995 is as follows (in thousands):

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## 4. GENERAL LONG-TERM DEBT (Continued)

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 1995
<b>General Obligation Bonds:</b>				
Public Facilities Financing Authority Sewer Revenue Bonds of 1993	2.8-5.25%	2023	\$250,000	\$242,785
San Diego Planetarium Revenue Bonds, issued April 1971	5.0-7.0	1996	3,000	455
Open Space Park Bonds of 1978, Series 79A, issued April 1979	6.0-8.0	2009	15,000	500
San Diego Stadium Authority - 1994 Refunding Bonds	4.0-4.75	1998	6,220	6,220
Open Space Park Refunding Bonds of 1986, issued June 1986	6.0-7.5	2005	32,790	3,400
Open Space Park Refunding Bonds of 1994	5.0-6.0	2009	64,260	64,260
Metropolitan Transit Development Board Authority Lease Revenue Bonds of 1989, issued June 1989	6.4-6.9	2009	31,240	5,240
Metropolitan Transit Development Board Authority Lease Revenue Refunding Bonds of 1994	4.25-5.625	2009	66,570	65,685
Metropolitan Transit Development Board Authority Lease Revenue Bonds of 1993	2.6-5.375	2023	19,515	18,640
Municipal Improvement Bonds of 1991, issued March 1991	5.0-8.0	2012	25,500	23,810
San Diego Facilities Equipment Leasing Certificates of Participation of 1991, issued July 1991	5.0-6.95	2021	11,810	11,400
San Diego Facilities Equipment Leasing Certificates of Participation of 1993, issued November 1993	3.9-5.6	2023	27,985	27,250
Certificates of Participation of 1991, issued August 1991	8.0	2002	<u>8,500</u>	<u>6,600</u>
Total General Obligation Bonds			<u>\$562,390</u>	<u>476,245</u>

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**ANNUAL FINANCIAL REPORT**

**4. GENERAL LONG-TERM DEBT (Continued)**

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 1995</u>
<u>Special Assessment Bonds:</u>				
1915 Act Otay Mesa Road Improvement Bonds, issued June 1988	8.2%	1999	\$ 1,148	\$ 105
1915 Act Via De La Valle Improvement Bonds, issued October 1986	6.0-8.8	2003	2,115	1,095
1915 Act Rio Vista Center Assessment District 1987 Reassessment and Refunding Bonds, issued April 1987	6.5-7.7	1998	1,105	150
1915 Act Alta Vista Annexation Sewer & Water Maintenance 1987 Reassessment & Refunding Bonds, issued April 1987	6.0-7.8	1999	220	50
1915 Act Lopez Canyon Sewer & Retention Basin 1987 Reassessment & Refunding Bonds, issued April 1987	6.5-7.9	2000	1,750	755
1915 Act Mira Mesa Blvd. Assessment District 1987 Reassessment & Refunding Bonds, issued April 1987	6.5-7.7	1998	1,910	600
1915 Act Sunset Cliffs Stabilization 1987 Reassessment & Refunding Bonds, issued April 1987	6.5-7.7	1998	560	195
1915 Act First San Diego River Improvement Project Bonds, issued July 1987	6.5-7.8	2008	24,082	19,170
1915 Act Otay International Center Improvement Bonds, issued September 1988	6.0-8.0	2014	6,995	5,770
1915 Act De La Fuente Business Park Improvement Bonds, issued April 1989	7.0-7.7	2014	4,897	4,380
1915 Act Sorrento Valley Road Improvement Bonds, issued June 1989	6.0-7.0	2010	1,632	1,190
1915 Act Calle Cristobal Improvement Bonds, issued July 1989	6.8-7.0	2015	19,195	15,955

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**ANNUAL FINANCIAL REPORT**

**4. GENERAL LONG-TERM DEBT (Continued)**

<u>Type of Obligation</u>	<u>Interest Rates</u>	<u>Maturity Date</u>	<u>Original Amount</u>	<u>Balance Outstanding June 30, 1995</u>
<u>Special Assessment Bonds: (Continued)</u>				
1915 Act Otay International Center-Phase II Improvement Bonds, issued Sept. 1989	6.0-7.4%	2015	\$12,212	\$10,575
1915 Act International Business Center Project, issued September 1990	6.1-7.4%	2016	4,172	3,445
1915 Act Mission Valley Heights, issued September 1990	6.5-7.9	2016	8,570	7,420
1915 Act Otay Mesa Industrial Park, issued May 1992	5.5-7.95	2013	2,235	2,110
Special Tax Bonds, 1991 Series A, Miramar Ranch North, issued July 1991	6.0-8.5	2017	35,340	34,195
1915 Act De La Fuente Business Park Phase II, issued July 1992	4.0-7.1	2018	5,987	5,795
1915 Act Black Mountain Improvement Bonds, issued December 1992	6.2-7.0	2018	<u>5,500</u>	<u>5,395</u>
Total Special Assessment Bonds			<u>\$139,625</u>	<u>118,350</u>
<u>Tax Allocation Bonds:</u>				
Horton Plaza Project Tax Allocation Bonds, Series 1977, issued November 1977	5.8-6.7	2002	11,000	2,165
Horton Plaza Project Tax Allocation Refunding Bonds Series 1988, issued July 1988	5.8-8.1	2009	11,635	9,655
Centre City Redevelopment Project Tax Allocation Refunding Bonds Series 1992, issued October 1992	3.0-8.0	2008	36,935	33,525
Centre City Redevelopment Project Tax Allocation Bonds, Series 1993A & B, issued November 1993	4.875-6.5	2018	54,350	53,075
Gateway Center West Redevelopment Project Tax Allocation Bonds, Series 1995, issued June 1995	7.8-9.75	2013	1,400	1,400

THE CITY OF SAN DIEGO

ANNUAL FINANCIAL REPORT

4. GENERAL LONG-TERM DEBT (Continued)

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 1995
<u>Tax Allocation Bonds: (Continued)</u>				
Mount Hope Redevelopment Project Tax Allocation Bonds, Series 1995A & B, issued June 1995	4.4-8.2%	2020	\$ 5,155	\$ 5,155
Southcrest Redevelopment Project Tax Allocation Bonds, Series 1995, issued June 1995	4.75-8.5	2011	<u>3,750</u>	<u>3,750</u>
Total Tax Allocation Bonds			<u>\$124,225</u>	<u>108,725</u>
Total Bonds Payable				<u>703,320</u>
<u>Contracts Payable:</u>				
Contract Payable to City of National City, dated March 1987	7.5	2002	2,171	1,290
Contract Payable to County of San Diego, dated June 1987	11.0	2013	423	100
Contract Payable to DP Partnership, dated May 1988	11.0	2024	<u>389</u>	<u>114</u>
Total Contracts Payable			<u>\$2,983</u>	<u>1,504</u>
<u>Notes Payable:</u>				
Notes payable to HUD, various dates	Various	Various	48,351	55,438
Note payable to HCD, dated July 1981	0.0	2013	1,405	1,405
Note payable to HCD, dated April 1983	0.0	2015	3,149	3,149
Mortgage note payable to Bank of America, dated February 1985	10.2	2025	<u>3,656</u>	<u>3,537</u>
Notes Payable to San Diego Association of Governments, various dates	Various	Various	24,825	26,283
Notes Payable to Banc One, various dates	8.11	2009	1,698	1,633
Note payable to the 1st Nationwide, assumed December 1992	Variable	2011	195	167

THE CITY OF SAN DIEGO

ANNUAL FINANCIAL REPORT

4. GENERAL LONG-TERM DEBT (Continued)

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 1995
<u>Notes Payable: (Continued)</u>				
Notes payable to HCD, dated November 1986	3.0%	Various	\$ 155	\$ 155
Notes payable to HCD, dated March 1981	3.0	Various	20	20
Notes payable to HCD, dated October 1980	3.0	Various	30	30
Notes payable to HCD, dated May 1980	3.0	Various	6	6
Note payable to GMAC, dated May 1988	8.5	Various	11	7
Notes payable to the Redevelopment Agency, various dates	0.0	2022	209	696
Note payable to Valley Mortgage, dated February 1995	11.0	2002	225	225
Note payable to Lorren Daro, dated March 1995	8.0	2005	257	252
Note payable to David Engel, dated December 1994	6.0	2004	<u>4,800</u>	<u>4,800</u>
Total Notes Payable			<u>\$88,992</u>	<u>97,803</u>
Capital Lease Obligations For Various Office Equipment, Various Dates	Various	Various	66	11
Liability Claims				24,231
Accrued Annual Leave				<u>39,934</u>
Total General Long-Term Debt				<u>\$88,803</u>

## 4. GENERAL LONG-TERM DEBT (Continued)

The following is a summary of changes in general long-term debt for the year ended June 30, 1995 (in thousands):

	Balance July 1, 1994	Additions	Retirements	Balance June 30, 1995
General obligation bonds	\$500,608	\$8,220	\$30,581	\$478,245
Special assessment bonds	123,830	0	5,480	118,350
Tax allocation bonds	102,705	10,305	4,285	108,725
Contracts payable	3,673	0	2,189	1,504
Notes payable	85,809	18,145	4,151	97,803
Capital lease obligations	24	0	13	11
Liability claims	20,795	3,438	0	24,231
Accrued annual leave	39,486	448	0	39,934
Total	\$876,928	\$38,554	\$46,679	\$868,803

The following is a summary of changes in general long-term debt for SDCCC at June 30, 1995 (in thousands):

	Balance July 1, 1994	Additions	Retirements	Balance June 30, 1995
Accrued Annual Leave	\$409	\$709	\$856	\$462
Total Long-term Debt	\$409	\$709	\$856	\$462

The City is obligated to levy and collect taxes for payment of principal and interest on the general obligation bonds. Certain bonds may be called at specified premiums.

The special assessment bonds were issued by the City to provide funds to make certain improvements in special assessment districts created by the City. The obligations are payable from property assessments against benefiting property owners for which liens have been attached. In the event of delinquencies in the payment of the property owners' installments, the City, in the absence of any other bidder, is obligated, by deposits from available surplus funds in the applicable Redemption Fund, to purchase at delinquent reassessment sales and pay future delinquent installments of reassessments and interest thereon until the land is resold or the applicable bonds are redeemed.

## 4. GENERAL LONG-TERM DEBT (Continued)

The annual requirements to amortize such long-term debt outstanding as of June 30, 1995, including interest payments to maturity, are as follows (in thousands):

Year Ending June 30,	General Obligation Bonds	Special Assessment Bonds	Tax Allocation Bonds	Contracts Payable	Notes Payable	Capital Lease Obligations
1996	\$ 41,040	\$ 3,830	\$ 10,102	\$ 330	\$ 3,208	\$11
1997	45,048	3,851	10,285	323	4,718	0
1998	40,995	4,151	10,273	252	1,727	0
1999	38,880	4,138	10,160	252	1,737	0
2000	38,261	4,425	9,678	732	1,747	0
Thereafter	612,263	106,966	137,031	176	92,475	0
Subtotal	816,487	127,361	187,527	2,065	105,610	11
Less Amounts representing interest	( 340,242)	( 9,011)	( 78,802)	( 561)	( 7,807)	( 0)
Total	\$476,245	\$118,350	\$108,725	\$1,504	\$97,803	\$11

## Installment Purchase Agreement

The City and the Public Facilities Financing Authority ("PFFA") entered into an installment purchase agreement for the acquisition, construction, installation, and improvement of its wastewater system. PFFA obtained financing for the project through an issuance of bonds secured by installment payments to be made by the City. The City has pledged revenues from its wastewater system to finance these installment payments in an amount equal to the principal and interest requirements for the associated bonds.

## Defeasance of Debt

In October 1994, the San Diego Stadium Authority issued the \$6,220,000 Lease Revenue Refunding Bonds, Series 1994A to advance refund the 1983 Lease Revenue Bonds. The proceeds of the refunding bonds were to provide for all future debt service payments on the refunded bonds. In addition, the Authority's 1986 Lease Revenue Bonds were self-defeased with available deposits of \$9,845,873 in custodial accounts. As a result, \$6,340,000 of the 1983 Lease Revenue Bonds and \$9,365,000 of the 1986 Lease Revenue Bonds are considered to be defeased and the corresponding liability has been removed from the general long-term debt account group. The refunding transaction will result in an economic gain or present value savings of approximately \$750,000 over the refunded 1983 Lease Revenue Bonds.

At June 30, 1995, \$155,380,000 of defeased bonds including those defeased in prior years are still outstanding.



## 5. PROPRIETARY FUND TYPE LONG-TERM DEBT

Proprietary Fund Type long-term debt as of June 30, 1995 is comprised of the following (in thousands):

Type of Obligation	Interest Rates	Maturity Date	Original Amount	Balance Outstanding June 30, 1995
<u>Notes Payable</u>				
Installment Purchase Agreement, 1993	2.8-5.25%	2023	\$247,145	\$242,786
Note payable to insurance company, dated August 1980	10 0	2011	1,200	422
Note payable to bank, dated October 1992	4 8	1997	1,700	946
Total Notes Payable			<u>\$250,045</u>	<u>244,154</u>
<u>General Obligation Bond</u>				
Certificates of Participation, dated September 1990	7 3	1996	<u>\$ 9,205</u>	<u>2,940</u>
<u>Contracts Payable</u>				
Contracts payable to County of San Diego	Various	1997	100	100
Other contracts payable	Various	1995	41	109
Total Contracts Payable			<u>\$ 141</u>	<u>209</u>
Capital Lease Obligations for Various Equipment, Various Dates	Various	Various	396	287
Liability Claims				9,420
Accrued Annual Leave				<u>10,251</u>
Total Proprietary Fund Type Debt				<u>\$287,281</u>

## 5. PROPRIETARY FUND TYPE LONG-TERM DEBT (Continued)

Annual requirements to amortize such long-term debt as of June 30, 1995, including interest payments to maturity, are as follows (in thousands):

Year Ending June 30	Notes Payable	General Obligation Bond	Contracts Payable	Capital Lease Obligations
1996	\$ 16,891	\$2,184	\$109	\$102
1997	16,570	927	100	102
1998	16,866	0	0	102
1999	16,443	0	0	0
2000	16,332	0	0	0
Thereafter	<u>375,334</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	458,456	3,111	209	306
Less-Amounts representing interest	<u>(214,302)</u>	<u>(171)</u>	<u>(0)</u>	<u>(19)</u>
Total	<u>\$244,154</u>	<u>\$2,940</u>	<u>\$ 209</u>	<u>\$287</u>

## 6. INTERAGENCY LONG-TERM DEBT

Long-term debt between the City and its component units has been eliminated in this report. During the year, the Redevelopment Agency of the City of San Diego has repaid \$1,510,730 principal and \$4,299,562 interest to the City and the City has advanced \$4,603,532 to the Agency. Interest between 8 and 12% totaling \$7,874,882 was added to the amount owing for the year. At June 30, 1995, interagency loans (including interest) were as follows (in thousands):

	Loans and Note Receivable	Loans and Note Payable
City of San Diego	\$168,987	\$ 0
Redevelopment Agency of The City of San Diego	<u>0</u>	<u>168,987</u>
Total	<u>\$168,987</u>	<u>\$168,987</u>

## 7. LEASE COMMITMENTS

Operating Leases

The following is a schedule of future minimum rental payments required under operating leases entered into by the City for property that has initial or remaining non-cancelable lease terms in excess of one year as of June 30, 1995 (in thousands):

<u>Year Ending June 30,</u>	
1996	\$ 8,906
1997	8,471
1998	8,235
1999	8,224
2000	8,138
Thereafter	<u>23,277</u>
Total	<u>\$65,251</u>

Rent expense as related to operating leases was approximately \$10,295,000 for the year ended June 30, 1995.

Capital Leases

The City has entered into various capital leases for equipment, vehicles and property. A schedule of future minimum lease payments under capital leases as of June 30, 1995 is provided in Note 4

Lease Revenues

The City has operating leases for certain land, buildings and facilities with tenants and concessionaires who will provide the following minimum annual lease payments (in thousands):

<u>Year Ending June 30,</u>	
1996	\$ 17,735
1997	17,077
1998	16,717
1999	16,401
2000	16,138
Thereafter	<u>412,157</u>
Total	<u>\$496,225</u>

This amount does not include contingent rentals which may be received under certain leases of property on the basis of percentage returns. Contingent rentals amounted to approximately \$19,881,677 in the year ended June 30, 1995.

## 8. DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, disability or an unforeseeable emergency.

The City funds all amounts of compensation deferred under the plan through investments in various mutual funds administered by an insurance company. Such investments and all related earnings thereon are (until paid or made available to employee or other beneficiary) solely the property and right of the City (without being restricted to the provisions of benefits under the plan), subject only to the claims of the City's general creditors. Participants under the plan have only the right to receive benefits in an amount equal to the balance of the participant's book account balance.

The City is of the opinion that it has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is unlikely that it will use the plan's assets to satisfy the claims of general creditors in the future.

The City accounts for the plan as an Agency Fund. The assets are stated at the market value which is represented by the contract value provided by the City's third party administrator.

## 9. PENSION PLANS

The City has a defined benefit plan and various defined contribution pension plans covering substantially all of its employees

## DEFINED BENEFIT PLAN

A Plan Description

All of the City and the San Diego Unified Port District (the "District") full-time employees participate in the City Employees' Retirement System ("CERS"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for the City and the District. For the year ended June 30, 1995, the City's payroll for employees covered by CERS was approximately \$351,118,000 while the City's total payroll was approximately \$384,357,740.

The number of employees and covered membership are as follows:

Retiree and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	4,115
Fully vested active employees	3,328
Non-vested active employees	6,133

All full-time City employees are eligible to participate in CERS. Retirement benefits are determined primarily by the member's age at retirement, the length of membership service and the member's final compensation. Final compensation is the members' compensation earnable based on the highest one-year period. Benefits fully vest on reaching 10 years of service. CERS also provides death and disability benefits. Benefits are established by the City's Municipal Code.

## 9. PENSION PLANS (Continued)

City employees are required to contribute a percentage of their annual salary to CERS. The City is required to contribute the remaining amounts necessary to fund CERS, using the actuarial basis specified by statute.

B Funding Status and Progress

The amount shown below as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of CERS on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits, and is independent of the funding method used to determine contributions to CERS.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1994. Significant actuarial assumptions used in the valuation include: (a) a rate of return on the investment of present and future assets of 8% a year compounded annually; (b) projected salary increases of 5.0% a year compounded annually (0.5% due to merit and 4.5% due to inflation); (c) up to a 4.5% per annum cost of living assumption; and (d) the Group Annuity Mortality Table with a 2 year setback for males and an 8 year setback for females.

Accumulated benefits and net assets for the City's defined benefit plan as of June 30, 1994, the most recent actuarial valuation date, are as follows (in thousands):

Pension benefit obligation:	
Retirees and beneficiaries currently receiving benefits and terminated employees not yet receiving benefits	\$615,897
Current employees:	
Accumulated employee contributions including allocated investment earnings	163,269
Employer-financed vested	447,217
Employer-financed Non-vested	111,896
Total pension benefit obligation	1,338,279
Net assets available for benefits at cost	(1,184,184)
Unfunded pension benefit obligation	<u>\$ 154,095</u>

The market value of the net assets was approximately \$1,218,356,789 at June 30, 1994.

C. Actuarially Determined Contribution Requirements and Contribution Made

Contributions to CERS from City employees vary according to entry age and salary. The City contributes a portion of the employees' share and the remaining amount necessary to fund the system based on an actuarial valuation at the end of the preceding year under the entry age normal cost method. The entry age normal cost method defines the normal cost as the level

## 9. PENSION PLANS (Continued)

percent of payroll needed to fund benefits over the period from the date of participation to the date of retirement. Beginning with the June 30, 1992 valuation, contributions are based on the projected unit credit method of actuarial valuation. Initial prior service costs are being amortized over a period of 30 years. Additional prior service costs due to plan changes in 1985 are being amortized over 30 years.

The significant actuarial assumptions used to compute the actuarially determined contribution requirement are the same as those used to compute the pension benefit obligation as described above.

The contribution to CERS for 1995 of \$59,057,000 (16.8% of current covered payroll) was made in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 1993 (the June 30, 1994 valuation was not received by the City until March 1995). The contribution consisted of (a) \$47,399,882 normal cost (13.5% of current covered payroll), and (b) \$11,657,118 amortization of the unfunded actuarial accrued liability (3.3% of current covered payroll). The City contributed \$40,644,000 (11.6% of covered payroll); employees contributed \$18,413,000 (5.2% of covered payroll).

D. Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due. Ten-year trend information may be found on page 19 of the City's Comprehensive Annual Financial Report. For the three fiscal years ended 1992, 1993, and 1994, respectively, available assets were sufficient to fund 95.2, 90.3 and 88.5% of the City's pension benefit obligation. Unfunded pension benefit obligation represented 15.4, 34.9 and 42.8% of the City's annual payroll for employees covered by CERS for 1992, 1993 and 1994, respectively. Showing unfunded pension benefit obligation as a percentage of annual covered City payroll approximately adjusted for the effects of inflation for analysis purposes. In addition, for the three fiscal years ended 1992, 1993 and 1994 the City's contributions to CERS, all made in accordance with actuarially determined requirements, were 8.9, 10.0 and 10.3% respectively of annual covered payroll.

Plan data for the plan year ended June 30, 1995 is not yet available

## DEFINED CONTRIBUTION PLANS

- Pursuant to the City's withdrawal from the Federal Social Security System effective January 8, 1982, the City provides pension benefits for eligible full-time employees through a supplemental pension and savings plan, a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. State legislation requires that both the employee and the City contribute an amount equal to 3% of the employee's total salary each month. Participants in the plan hired before April 1, 1986 and on or after April 1, 1986 may voluntarily contribute up to an additional 4.5% and 3.05%, respectively, of total salary.

## 9. PENSION PLANS (Continued)

The City also contributes an amount equal to the employee voluntary contributions. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service. City contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the City's contribution requirement.

The City's total payroll in fiscal year 1995 was approximately \$384,358,000. The City's contributions were calculated using the salary amount of approximately \$245,529,000. The City and the covered employees each contributed approximately \$15,169,000 (6.2%) or approximately \$30,338,000 in total.

In addition the City provides pension benefits for all eligible full-time employees through the 401(k) Deferred Compensation Plan, also a defined contribution plan. Employees are eligible to participate twelve months after the date of employment. Employees make contributions to their 401(k) accounts through payroll deductions, and may also elect to have the City contribute to their 401(k) accounts through the City's Employees' Flexible Benefits Program.

The City's total payroll in fiscal year 1995 was approximately \$384,358,000. The City's contributions were calculated pursuant to various combination arrangements with employees. The City and the covered employees contributed approximately \$3,683,000 and approximately \$2,599,000, respectively, or approximately \$6,282,000 in total.

- b Centre City Development Corporation ("CCDC") has a Money Purchase Pension Plan covering all full-time permanent employees. The plan is a defined contribution plan. Employees are eligible to participate on the first day of the month following 90 days after their date of employment. During each plan year, CCDC contributes quarterly an amount equal to 8% of the total quarterly compensation for all employees. CCDC's contributions for each employee are fully vested after six years of continuous service.

CCDC's total payroll in fiscal year 1995 was approximately \$1,455,000. CCDC contributions were calculated using the base salary amount of approximately \$1,321,000. CCDC made the required 8% contribution, amounting to approximately \$106,000 (net of forfeitures) for fiscal year 1995.

In addition, CCDC has a Tax Deferred Annuity Plan covering current and previous full-time permanent employees. The plan is a defined contribution plan. Employees are eligible to participate the first day of the month following 90 days after their date of employment. During each plan year, CCDC contributes semi-monthly an amount equal to 10% of the total semi-monthly compensation for all employees. CCDC's contributions for each employee are fully vested at time of contribution.

CCDC's total payroll in fiscal year 1995 was approximately \$1,455,000. CCDC contributions were calculated using the base salary amount of approximately \$1,321,000. CCDC made the required 10% contribution amounting to approximately \$132,000 for fiscal 1995.

- c. The San Diego Convention Center Corporation Money Purchase Pension Plan (the "Plan") became effective January 1, 1986. The Plan is a qualified defined contribution plan and, as such, benefits depend on amounts contributed to the plan plus investment earnings and allocated forfeitures, less allowable plan expenses. The Plan covers employees not otherwise covered through a collective bargaining unit agreement. Employees are eligible at the earlier of the date

## 9. PENSION PLANS (Continued)

on which they complete six months of continuous full-time service, or the twelve-month period beginning on their hire date (or any subsequent plan year) during which they complete 1,000 hours of service. A plan year is defined as a calendar year. Plan balances for each eligible employee are vested gradually over five years of continuing service with an eligible employee becoming fully vested after five years. Forfeitures and Plan expenses are allocated in accordance with Plan provisions.

The Plan was restated for the purpose of clarification during 1995. Required contributions were calculated using the covered compensation amount of \$5,498,361. SDCCC has funded the required contribution as of June 30, 1995.

For the fiscal year ended June 30, 1995, pension expense for the Plan amounted to \$579,338. SDCCC records pension expense during the fiscal year based upon estimated covered compensation. Included in accrued liabilities at June 30, 1995, is \$44,000 of accrued pension expense.

At June 30, 1995, Plan assets, which are held by a trustee bank, consist of the following:

## STATEMENT OF PLAN ASSETS

	Market Value	Book Value
Wells Fargo Collective Funds	\$2,007,814	\$1,742,728
Interest & Non-interest Bearing Cash	<u>269,165</u>	<u>269,165</u>
Total Plan Assets	<u>\$2,276,979</u>	<u>\$2,011,893</u>

SDCCC offers its employees a Deferred Compensation Plan (the "Deferred Plan") created in accordance with Internal Revenue Code Section 457. The Deferred Plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, disability, or an unforeseeable emergency.

SDCCC funds the deferred compensation through investments in various mutual funds administered by an insurance company. Until paid or made available to the employee or other beneficiary, such investments and all related earnings thereon are solely the property and right of SDCCC (without being restricted to the provisions of benefits under the Deferred Plan), subject only to the claims of SDCCC's general creditors. Participants under the Deferred Plan have only the right to receive benefits in an amount equal to the balance of their account. SDCCC is of the opinion that it has no liability for the losses under the Deferred Plan but does have the duty of due care that would be required of an ordinary prudent investor. SDCCC believes that it is unlikely that it will use the Deferred Plan's assets to satisfy claims of creditors in the future.

- d. San Diego Data Processing Corporation ("SDDPC") has accrued and set aside funds in a money market account to provide employees who transferred from the City to SDDPC with retirement benefits approximately equal to those under the City's retirement plan. As of June 30, 1995 and 1994, the balance in the account was \$90,158 and \$86,987, respectively.

## 9. PENSION PLANS (Continued)

The balance at June 30, 1995 consisted of the total estimated liability plus interest earned on the account since its establishment in fiscal year 1991.

In addition, SDDPC has in effect a Money Purchase Pension Plan ("the Plan") covering substantially all employees. The plan is a defined contribution plan, wherein benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. During each plan year, SDDPC contributes monthly an amount equal to 20% of the total monthly compensation for all employees. SDDPC contributions for each employee are fully vested after four years of continuous service.

SDDPC's total payroll in fiscal year 1995 and 1994 respectively, was approximately \$10,623,000 and \$8,817,000. As all employees are substantially covered, SDDPC contributions were calculated using this base salary amount. SDDPC made the required 20% contribution amounting to approximately \$1,930,000 and \$1,680,000 for fiscal years 1995 and 1994 respectively.

- e The San Diego Housing Authority (the "Authority") provides pension benefits for all of its full-time employees through a defined contribution plan. Employees are eligible to participate on the first day of their employment. The Authority contributes an amount equal to 12% of the employee's base salary semi-monthly. The Authority's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service. The Authority's contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the Authority's contribution requirement.

The Authority's total payroll in fiscal year 1995 was approximately \$10,506,148. The Authority made the required 12% contribution, amounting to approximately \$987,000 for fiscal year 1995 based on covered payroll of approximately \$8,213,000.

- f Southeast Economic Development Corporation ("SEDC") has a Simplified Employee Pension Plan covering all full-time, permanent employees. The plan is a defined contribution plan. Employees are eligible to participate on the first day of the month following 90 days after their date of employment. During each plan year, SEDC contributes monthly an amount equal to 12% of the employee's base salary. Such contributions are fully vested.

SEDC's total payroll in fiscal year 1995 was approximately \$605,000. SEDC contributions were calculated using the base salary amount of approximately \$537,000. SEDC made the required 12% contribution, amounting to approximately \$84,000 for fiscal year 1995.

## 10. POST RETIREMENT HEALTH INSURANCE

In addition to providing pension benefits, the City of San Diego Municipal Code provides certain health care insurance benefits for retired general and safety members of CERS who retired on or after October 6, 1980. At June 30, 1995, approximately 1,859 retirees were eligible and received benefits.

Certain healthcare insurance benefits were established during fiscal year 1995 for eligible retirees who retired prior to October 6, 1980. These benefits are available to all retirees who are not currently provided City-paid healthcare insurance. At June 30, 1995, approximately 1,139 retirees were included in this category and received benefits.

## 10. POST RETIREMENT HEALTH INSURANCE (Continued)

Currently, expenses for post-employment healthcare benefits are recognized as they are paid. For the fiscal year ended June 30, 1995, expenditures of approximately \$5,149,580 were recognized for such healthcare benefits.

Substantially all of the City's general and safety members of CERS may become eligible for those benefits if they reach normal retirement age and meet service requirements as defined while working for the City.

## 11. INTERFUND RECEIVABLE AND PAYABLE BALANCES

Individual fund interfund working capital advances balances at June 30, 1995 are as follows (in thousands):

Fund	Advances from Other Funds	Advances to Other Funds
General Fund	\$ 0	\$10,980
Special Revenue Funds:		
City of San Diego Oversight Unit:		
Acquisition, Improvement and Operation	760	94
Environmental Growth Fund	0	796
San Diego Jack Murphy Stadium Operations	0	2
Special Gas Tax Street Improvement	0	2,361
Transient Occupancy Tax	0	1,372
Grants	45	64
Other Special Revenue	280	203
Centre City Development Corporation	275	0
Mid-City Development Corporation	59	0
Redevelopment Agency	5	0
San Ysidro Revitalization Project		
Southeast Economic Development Corporation	149	0
Total Special Revenue Funds	1,573	4,892
Capital Projects Funds:		
City of San Diego Oversight Unit:		
Capital Outlay	0	130
Redevelopment Agency	59	482
San Diego Facilities and Equipment		
Leasing Corporation	1,372	0
Total Capital Projects Funds	1,431	612
Enterprise Funds:		
City of San Diego Oversight Unit:		
Airports	0	186
Development Services	0	9
Environmental Services	0	3,349
Golf Course	0	100
Sewerage Utility	0	7,858
Water Utility	0	10,888
Total Enterprise Funds	0	22,200

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**ANNUAL FINANCIAL REPORT**
**11. INTERFUND RECEIVABLE AND PAYABLE BALANCES (Continued)**

<u>Fund</u>	<u>Advances from Other Funds</u>	<u>Advances to Other Funds</u>
<b>Internal Service Funds:</b>		
City of San Diego Oversight Unit:		
Central Garage and Machine Shop	\$31,242	\$ 5
Print Shop Revolving	0	28
Self Insurance	514	180
Stores Revolving	3,282	1
Miscellaneous Internal Service	0	4
<b>Total Internal Service Funds</b>	<b><u>35,037</u></b>	<b><u>228</u></b>
<b>Trust and Agency Funds:</b>		
City of San Diego Oversight Unit:		
Other Miscellaneous Agency	870	0
<b>Total</b>	<b><u>\$35,912</u></b>	<b><u>\$38,912</u></b>

Individual fund interfund receivable and payable balances at June 30, 1995 are as follows (in thousands):

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
<b>General Fund</b>	<b><u>\$ 358</u></b>	<b><u>\$ 0</u></b>
<b>Special Revenue Funds:</b>		
City of San Diego Oversight Unit:		
Grants	18	0
Other Special Revenue	3	358
Redevelopment Agency	21	42,426
Southeast Economic Development Corporation	0	56
<b>Total Special Revenue Funds</b>	<b><u>40</u></b>	<b><u>42,840</u></b>
<b>Capital Projects Funds:</b>		
Public Facilities Financing Authority	0	15,094
Redevelopment Agency	42,481	39
<b>Total Capital Projects Funds</b>	<b><u>42,481</u></b>	<b><u>15,133</u></b>
<b>Enterprise Funds:</b>		
City of San Diego Oversight Unit:		
Sewerage Utility	15,094	500
Water Utility	500	0
<b>Total Enterprise Funds</b>	<b><u>15,594</u></b>	<b><u>500</u></b>
<b>Total</b>	<b><u>\$58,473</u></b>	<b><u>\$58,473</u></b>

**THE CITY OF SAN DIEGO**
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**11. INTERFUND RECEIVABLE AND PAYABLE BALANCES (Continued)**

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
<b>Primary government and component unit:</b>		
Component Unit - SDCCC	\$ 1,021	\$ 0
Primary Government - Transient Occupancy		
Tax Fund	0	1,021
<b>Total</b>	<b><u>\$ 1,021</u></b>	<b><u>\$ 1,021</u></b>

**12. ENTERPRISE FUNDS SEGMENT INFORMATION**

The City maintains Enterprise Funds which provide airport, sewer, water and other services. Segment information for the year ended June 30, 1995 is as follows (in thousands).

	<u>Airports</u>	<u>The Centre</u>	<u>City Store</u>	<u>Develop- ment Services</u>	<u>Environ- mental Services</u>	<u>Subtotal</u>
Operating Revenues	\$1,833	\$ 245	\$ 470	\$12,782	\$51,881	\$67,211
Operating Expenses before						
Depreciation & Amortization	2,008	214	427	12,252	35,723	50,624
Depreciation and Amortization	186	0	3	108	94	391
Operating Income (Loss)	(361)	31	40	422	16,064	16,196
Operating Transfers In	0	0	0	0	84	84
Operating Transfers Out	0	0	0	0	0	0
Transfers Out to						
Governmental Funds	0	0	0	0	0	0
Nonoperating Revenue	113	2	6	546	3,393	4,060
Nonoperating Expense	(14)	(4)	(2)	(369)	(200)	(589)
Net Income (Loss)	(262)	29	44	599	19,341	19,751
Grant Revenues (Expenses)	0	0	0	0	740	740
Capital Contributions	406	(27)	25	0	0	404
Net Fixed Asset						
Additions (Deletions)	882	0	1	(203)	17,221	17,901
Net Working Capital	1,617	64	169	6,032	41,930	49,812
Total Assets	9,384	67	217	11,790	90,873	112,331
Total Equity	9,034	64	197	7,395	74,143	90,833
Long-Term Liabilities						
Bonds Payable	0	0	0	0	0	0
Other	127	0	25	916	1,213	2,281

## 12. ENTERPRISE FUNDS SEGMENT INFORMATION (Continued)

	Subtotal (Previous Page)	Golf Course	Sewerage Utility	Water Utility	San Diego Data Processing Corporation	Grand Total
Operating Revenues	\$67,211	\$4,311	\$170,848	\$136,351	\$33,663	\$412,384
Operating Expenses before Depreciation and Amortization	50,624	3,865	108,296	136,579	27,934	327,298
Depreciation and Amortization	391	166	10,059	8,673	5,200	24,489
Operating Income (Loss)	16,196	280	52,493	(8,901)	529	60,597
Operating Transfers In	84	0	81	643	0	808
Operating Transfers Out	0	0	(500)	0	0	(500)
Transfers Out to Governmental Funds	0	0	(914)	0	(500)	(1,414)
Nonoperating Revenue	4,060	177	16,783	10,528	198	31,746
Nonoperating Expense	(589)	(28)	(45,734)	(1,894)	(372)	(48,617)
Net Income (Loss)	19,751	429	22,209	376	(145)	42,620
Grant Revenues (Expenses)	740	5	312	1,194	0	2,251
Capital Contributions	404	(1,050)	63,964	24,395	0	87,713
Net Fixed Asset Additions (Deletions)	17,901	1,259	168,747	62,369	3,308	253,584
Net Working Capital	49,812	2,391	301,283	158,831	(1,819)	510,498
Total Assets	112,331	9,794	1,527,090	755,077	20,057	2,424,349
Total Equity	90,833	8,874	1,186,685	712,884	11,813	2,011,089
Long-Term Liabilities						
Bonds Payable	0	0	0	0	0	0
Other	2,281	273	246,608	7,651	1,874	258,687

## 13. CONTRIBUTED CAPITAL

During the year ended June 30, 1995, contributed capital increased (decreased) by the following amounts (in thousands)

Enterprise Funds.

Source	Airports	The Center	City Store	Develop- ment Services	Environ- mental Services	Golf Course	Sewerage Utility	Water Utility
Capacity charges	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 11,439	\$ 7,405
Developer - capital improvements	0	0	0	0	0	0	14,440	15,988
Federal grant - capital improvements	406	0	0	0	0	0	31,280	176
Federal grant - capital reimbursement	0	0	0	0	0	0	0	0

## 13. CONTRIBUTED CAPITAL (Continued)

Enterprise Funds: (continued)

Source	Airports	The Center	City Store	Develop- ment Services	Environ- mental Services	Golf Course	Sewerage Utility	Water Utility
Government - general fixed assets	0	0	0	0	0	0	0	0
Government - capital infusion	0	(27)	25	0	0	0	1,335	717
Government - capital reimbursement	0	0	0	0	0	(1,050)	0	0
Meters and services	0	0	0	0	0	0	0	0
State grant - capital improvements	0	0	0	0	0	0	5,470	109
Total additions (deletions)	406	(27)	25	0	0	(1,050)	63,964	24,395
Contributed capital, July 1, 1994	7,516	90	55	125	275	6,101	610,918	448,981
Contributed capital, June 30, 1995	7,922	63	80	125	275	5,051	674,882	473,376

## 14. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Self Insurance Fund was created to provide coverage up to a maximum of \$3.0 million for each workers' compensation claim and \$3.0 million for each general or automobile claim.

The City maintains an excess liability insurance policy whereby the City pays the first \$3,000,000 per occurrence. Amounts in excess of \$3,000,000 up to \$22,000,000 per occurrence are covered by insurance. Any amounts over \$22,000,000 per occurrence would be paid by the City. At June 30, 1995, the City has recorded approximately \$24,231,000 for the City's exposure in such claims in the General Long-Term Debt Account Group and approximately \$9,420,000 in the Enterprise Funds.

The City is self-insured for workers' compensation, long-term disability and certain employee group health coverages. These are accounted for in the Internal Service Funds. At June 30, 1995, the City has recorded approximately \$28,454,000 for claims and potential claims related to such coverages. Each participating fund contributes an amount equal to an actuarially determined rate times the gross salaries of the fund. These payments are treated as operating expenditures in the contributing funds and operating revenues in the receiving funds.

All funds of the City participate in the program and make payments to the Self Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. The reserve was \$(19.7) million at June 30, 1995 and is reported as a reservation of the Self Insurance Fund's retained earnings.

**14. RISK MANAGEMENT (Continued)**

These amounts represent the City's determination of the probable ultimate cost of the claims. The City has set up a reserve for liability claims of approximately \$5,402,000 in the Internal Service Funds to indicate funds set aside to pay for claims in excess of the annual appropriations in the General Fund. Property insurance is maintained on selected capital assets based upon various factors including management's assessment of the risks of loss.

The estimated liabilities of the Self Insurance Fund as of June 30, 1995 are determined by the City based on recommendations from an independent actuarial evaluation. The liabilities are based on estimates of the ultimate costs of claims (including future claim adjustment expenses) that have been reported but not settled and claims that have been incurred but not reported (IBNR).

**15. FUND DEFICIT**

The Internal Service Funds have a net fund equity of approximately \$4,839,000 at June 30, 1995. This balance includes a fund equity deficit in the Self Insurance Fund of approximately \$19,745,000 which represents unfunded estimated claims and claim settlements related to worker's compensation, long-term disability and certain employee group health coverages. It is anticipated that individual claim settlements will be funded through user charges subsequent to the filing of a claim and prior to its settlement.

The Debt Service Fund - Other Special Assessment Funds have a net fund balance of approximately \$17,451,000 at June 30, 1995. This balance includes a fund deficit in the First San Diego River Improvement Project Fund of approximately \$1,276,000. It is anticipated that this deficit will be funded with proceeds from the sale of certain delinquent parcels.

**16. COMMITMENTS**

The City is currently obligated to transfer up to two-thirds of the annual franchise tax receipts in the Environmental Growth Fund (a Special Revenue Fund) to the San Diego Open Space Park Facilities District #1 (the "District") Fund (a Debt Service Fund) for the payment of debt service on the District's outstanding general obligation bonds. Such required debt service on the District's outstanding bond obligations of \$68,160,000 at June 30, 1995 is approximately \$7,120,000 for each of the subsequent five years ending June 30, 2000.

The City has guaranteed the payment of a revolving line of credit in the maximum amount of \$7,500,000 on behalf of various individuals through Wells Fargo Bank regarding the CDBG Housing Loan Leveraging Program. As of June 30, 1995, approximately \$545,000 of total leveraged loans are still outstanding.

The Sewerage Utility's construction plans for various projects are estimated to cost approximately \$206,674,000. As of June 30, 1995, the Utility's contractual commitments for the projects totaled approximately \$158,741,000. The Utility intends to finance the contractual commitments with approved State and Federal grants and service charges.

The Water Utility's construction plans for various projects are estimated to cost approximately \$54,935,000. As of June 30, 1995, the Utility's contractual commitments for the projects totaled approximately \$30,809,000. The Utility intends to finance the contractual commitments with reserves and service charges.

**16. COMMITMENTS (Continued)**

The City and the San Diego Unified Port District (the "District") have a written Memorandum of Understanding regarding the District's commitment to assist in the financing of the expansion of the San Diego Convention Center. They are presently working towards developing an agreement that would be legally binding for financing purposes. The site, located on the adjacent surface parking lot, has been approved for the expansion and soil testing has begun. It is projected that the expansion will at least double the current exhibit hall space.

**17. CONTINGENCIES**

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. City management believes such disallowances, if any, would not have a material effect on the City's financial position.

In September 1989, legislation was adopted (Assembly Bill No. 2080) which requires the Redevelopment Agency of the City of San Diego to fund Low and Moderate Housing Activity equivalent to at least 20% of tax increment revenue received after fiscal year 1985. In October 1990, the Agency adopted a nine-year plan to fully fund the retroactive 20% requirement (Resolution No. 1911, 1912, and 1913). At June 30, 1995, the 20% requirement deficit remaining to be funded in future years is approximately \$3,734,000.

During fiscal year 1995, the Federal Court ruled in favor of the City of San Diego in its lawsuit with the Federal Environmental Protection Agency ("E.P.A.") concerning the overturning of a previous consent decree. In November 1995, the E.P.A. granted the City a waiver from the Secondary Treatment provisions of the Clean Water Act. This waiver runs for a five year period at which time the City may reapply for another five year period.

**18. THIRD PARTY DEBT**

The City has authorized the issuance of certain bonds, in its name, to provide tax exempt status because it perceives a substantial public benefit will be achieved through the use of the proceeds. The following describes the various types of such third party debt:

**Mortgage and Revenue Bonds**

Single Family Mortgage Revenue Bonds have been issued to provide funds to purchase mortgage loans secured by first trust deeds on newly constructed and existing single-family residences. The purpose of this program is to provide low interest rate home mortgage loans to persons of low or moderate income who are unable to qualify for conventional mortgages at market rates. Multi-Family Housing Revenue Bonds are issued to provide construction and permanent financing to developers of multi-family residential rental projects located in the City to be partially occupied by persons of low or moderate income.

**Industrial Development Revenue Bonds**

Industrial Development Revenue Bonds have been issued to provide financial assistance for the acquisition, construction, and installation of facilities for industrial, commercial or business purposes to mutually benefit the citizens of the City of San Diego.



## 18. THIRD PARTY DEBT

1911 Act Special Assessment Bonds

1911 Act Special Assessment Bonds have been issued to provide funds for the construction or acquisition of public improvements, and/or the acquisition of property for public purposes, for the benefit of particular property holders within the City. Each bond is secured by a lien on a specific piece of property.

As of June 30, 1995, the status of all third party bonds issued is as follows (in thousands):

	<u>Issued</u>	<u>Outstanding</u>
Mortgage Revenue	\$ 588,283	\$ 398,298
Industrial Development Revenue	627,579	624,620
1911 Act Special Assessment	424	314
<b>Totals</b>	<b>\$1,216,277</b>	<b>\$1,023,230</b>

These bonds do not constitute an indebtedness of the City. The bonds are payable solely from payments made on and secured by a pledge of the acquired mortgage loans, certain funds and other monies held for the benefit of the bondholders pursuant to the bond indentures, property liens and other loans. In the opinion of the City officials, these bonds are not payable from any revenues or assets of the City, and neither the full faith and credit for the taxing authority of the City, the state or any political subdivision thereof is obligated to the payment of principal or interest on the bonds. In essence, the City is acting as an agent for the property owners/bondholders in collecting and forwarding the funds. Accordingly, no liability has been recorded in the City's General Long-Term Debt Account Group.

## 19. CLOSURE AND POSTCLOSURE CARE COST

State and federal laws and regulations require that the City of San Diego place a final cover on its Miramar landfill site when it stops accepting waste and perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and postclosure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date.

The \$9.0 million reported as landfill closure and postclosure care liability at June 30, 1995, represents the cumulative amount reported to date based on the use of 36.5% of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and postclosure care of \$16.0 million as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 1995. The City expects to close the landfill in the year 2003. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by state and federal laws and regulations to make annual contributions to finance closure and postclosure care. The City is in compliance with these requirements, and, at June 30, 1995, cash or equity in pooled cash and investments of \$13,607,000 is held for this purpose. This is reported as restricted assets on the balance sheet. The City expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are determined (due to changes in technology or applicable laws or regulations, for example), these costs may need to be covered by charges to future landfill users or from other sources.

## 19. CLOSURE AND POSTCLOSURE CARE COST (Continued)

In fiscal year 1995, the City reevaluated its initial cost and capacity estimates. These estimates included the North Miramar Landfill as West Miramar is a permitted expansion of North Miramar. The fiscal year 1995 estimates do not include North Miramar as the Regulatory Agencies have since deemed North Miramar to be closed and therefore no additional closure cost estimates are required. As a result, the West Miramar closure estimates now stand alone.

Such reevaluation resulted in the adjustment of Estimated Total Current Cost, Total Estimated Capacity, Cumulative Capacity Used and related Closure and Postclosure Care Cost Accrued Liability.

In addition, the West Miramar landfill was redesigned in fiscal year 1995 which increased its capacity.

The accompanying financial statements reflect the above adjustments.

## 20. OPERATING AGREEMENTS

City of San Diego and San Diego Data Processing Corporation

In September 1979, the San Diego Data Processing Corporation ("SDDPC") entered into an operating agreement with the City. Under the terms of the agreement, as amended, SDDPC has agreed to provide data processing and services needed to support the operational and planning requirements of the City. The rates charged for the various services are subject to adjustment each fiscal year. Included in data processing services revenue for the year ended June 30, 1995 and 1994 are approximately \$17,182,520 and \$13,972,972, respectively, of revenue earned from the City under this agreement.

The operating agreement also requires SDDPC to purchase computer equipment, computer maintenance, various contractual services and other reimbursed expenses as a part of the service it provides to the City. The City then reimburses SDDPC the costs associated with these expenses. Such transactions are not considered to be revenues and expenses of SDDPC and are excluded from its statements of revenues, expenses and members' equity. The amount of these expenditures for the years ended June 30, 1995 and 1994 were approximately \$13,780,631 and \$10,657,290, respectively. SDDPC earned \$221,987 and \$486,828 in general and administrative fees from such transactions for year ended June 30, 1995 and 1994, respectively.

The operating agreement was amended during fiscal 1988 to have SDDPC provide and operate telecommunications services for the City. The rates for the various services are subject to adjustment each fiscal year.

Library System

During fiscal year 1984, SDDPC entered into an agreement with the City of San Diego Public Library and the County of San Diego Public Library (the "Libraries") for a five-year term, subject to annual appropriations, to purchase and operate an automated library system and to provide the related data processing services to support the operational requirements of the Libraries. In fiscal year 1990, this agreement was extended an additional 5 years.

# THE CITY OF SAN DIEGO

# ANNUAL FINANCIAL REPORT

## 20 OPERATING AGREEMENTS (Continued)

As of June 30 1995 the parties are currently working on a long-term strategic plan for the future development of the Automated Library System and intend to complete the plan during the first half of fiscal year 1996. The agreement was extended for six additional months through and including December 31 1995 while the long-term strategic plan is being developed.

The Libraries share the cost of operations based upon certain percentages of direct costs and shared costs. The rates charged for the various services are subject to adjustment each fiscal year.

Included in SDDPC's data processing service revenue are the following amounts for the automated library system for the years ended June 30 1995 and 1994:

	1995	1994
City of San Diego Public Library	\$1 150 828	\$ 935 091
County of San Diego Public Library	423 921	378 029
<b>Total</b>	<b>\$1 574 747</b>	<b>\$1 313 120</b>

### Regional Urban Information System

During fiscal year 1984 SDDPC entered into an agreement with the City and the County of San Diego (the "County") to provide, for a ten-year term subject to annual appropriations data processing services to implement and operate a data base system known as the Regional Urban Information System ("RUIS"). In fiscal year 1995 this agreement was extended for another year. The long-range goal of RUIS is to provide the City and County with an information system that monitors, where feasible, all operations both current and future that affect their jurisdictions.

Included in SDDPC's data processing services revenue are the following amounts relating to RUIS for the years ended June 30, 1995 and 1994:

	1995	1994
City	\$ 2 491 303	\$ 2 848 484
County	1 439 863	1 241 368
<b>Total</b>	<b>\$ 3 931 166</b>	<b>\$ 4 089 852</b>

## 21. SUBSEQUENT EVENTS

- A On July 5, 1995, the City issued the \$53,000,000 1995-1996 Tax Anticipation Notes, Series A to finance seasonal short term cash flow requirements.
- B The Public Facilities Financing Authority of the City of San Diego is in the process of issuing Sewer Revenue Bonds, Series 1995, for the City's design, engineering, land acquisition and construction costs of certain capital improvements to the waste water system of the City.
- C The Public Facilities Financing Authority of the City of San Diego has begun the process towards expanding the San Diego Jack Murphy Stadium.

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## TRUST AND AGENCY FUNDS PENSION TRUST FUNDS CITY EMPLOYEES' RETIREMENT SYSTEM REQUIRED SUPPLEMENTARY INFORMATION - ANALYSIS OF FUNDING PROGRESS LAST TEN FISCAL YEARS (IN MILLIONS)

Fiscal Year Ended June 30	Net Assets Available for Benefits	Pension Benefit Obligation	Percentage Funded	Unfunded Pension Benefit Obligation	Annual Covered Payroll	Benefit Obligation As a Percentage Of Covered Payroll
1986	\$ 493.3	\$ 547.6	90.1%	\$ 54.3	\$ 171.7	31.6%
1987	590.7	616.9	95.8	26.2	195.4	13.4
1988	659.0	688.1	95.8	29.1	218.1	13.3
1989	746.0	786.5	94.8	40.5	241.4	16.8
1990	806.5	847.8	95.1	41.3	271.4	15.2
1991	896.4	947.6	94.6	51.2	303.5	16.9
1992	1 006.1	1 057.2	95.2	51.1	331.7	15.4
1993	1 101.9	1 220.8	90.3	118.9	340.7	34.9
1994	1 184.1	1 338.2	88.5	154.1	360.2	42.8
1995	N/A	N/A	N/A	N/A	N/A	N/A

## REQUIRED SUPPLEMENTARY INFORMATION - REVENUE SOURCES LAST TEN FISCAL YEARS (IN THOUSANDS)

Fiscal Year Ended June 30	Employee Contributions	Employer Contributions	Investment Income	Charges For Current Services	Total	Employer Contributions As a Percentage Of Covered Payroll
1986	\$ 4 917	\$ 30 051	\$ 64 922	\$ 46	\$ 99 936	17.5%
1987	4 959	31 763	92 330	47	129 099	16.3
1988	5 781	31 545	65 665	43	103 034	14.4
1989	7 262	29 291	87 676	47	124 276	12.1
1990	10 760	30 230	63 652	71	104 713	11.1
1991	11 442	36 899	86 833	67	135 241	12.2
1992	13 855	29 579	107 825	76	151 335	8.9
1993	14 014	34 150	102 374	105	150 643	10.0
1994	14 495	37 233	92 323	127	144 178	10.3
1995	18 413	40 644	114 394	157	173 607	N/A

## REQUIRED SUPPLEMENTARY INFORMATION - EXPENSES BY TYPE LAST TEN FISCAL YEARS (IN THOUSANDS)

Fiscal Year Ended June 30	Benefits	Administrative Expenses	Refunds	Total
1986 *	\$ 36 365	\$ 1 113	\$ 1 186	\$ 38 664
1987	29 370	1 297	997	31 664
1988	31 323	1 443	979	33 745
1989	34 093	1 951	943	36 987
1990	38 025	3 116	1 097	42 238
1991	41 685	3 789	1 094	46 568
1992	42 315	4 931	1 021	48 267
1993	48 873	5 439	1 193	55 505
1994	54 380	6 308	1 174	61 862
1995	57 176	7 049	1 516	65 741

\* Includes additional Supplemental Benefit from Andrews class settlement of \$9 944 524